



Canada's Export Development Plan for
FEDERAL
REPUBLIC OF
GERMANY



External Affairs
Canada

Affaires extérieures
Canada

Canada's Export Development Plan for the Federal Republic of Germany



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FOREWORD

Canada's Export Development Plan for the Federal Republic of Germany has been prepared to assist Canadians to expand trade and economic links with Germany. The review and analysis of this market provide the basis for the market development activities in Germany over the next two to three years, as planned by the Department of External Affairs in conjunction with other federal departments. The provincial governments, who are also active in supporting Canadian exporters, have been consulted in the preparation of this market outline. The development plan does not attempt to cover exhaustively all Canadian interests or all German market opportunities. Rather, it focuses on significant sector opportunities that are consistent with Canadian supply capabilities.

The plan is presented in three parts. The introductory portion, the *Executive Summary*, provides a brief review of Canadian-German trade relations and highlights the principal market opportunities identified for each of the industry sectors included in the plan. *Part I*, the *Market Overview*, focuses on bilateral Canada-Germany relationships and economic and political conditions in Germany. This will be particularly useful to the reader seeking a broad introduction to the Canada-Germany trade environment. *Part II*, *Market Opportunities and Sector Marketing Plans*, will be of interest to firms supplying goods and services in the selected sectors and to those companies who foresee possible co-operation in third-country markets or believe that industrial co-operation could be opportune.

Federal Republic of Germany

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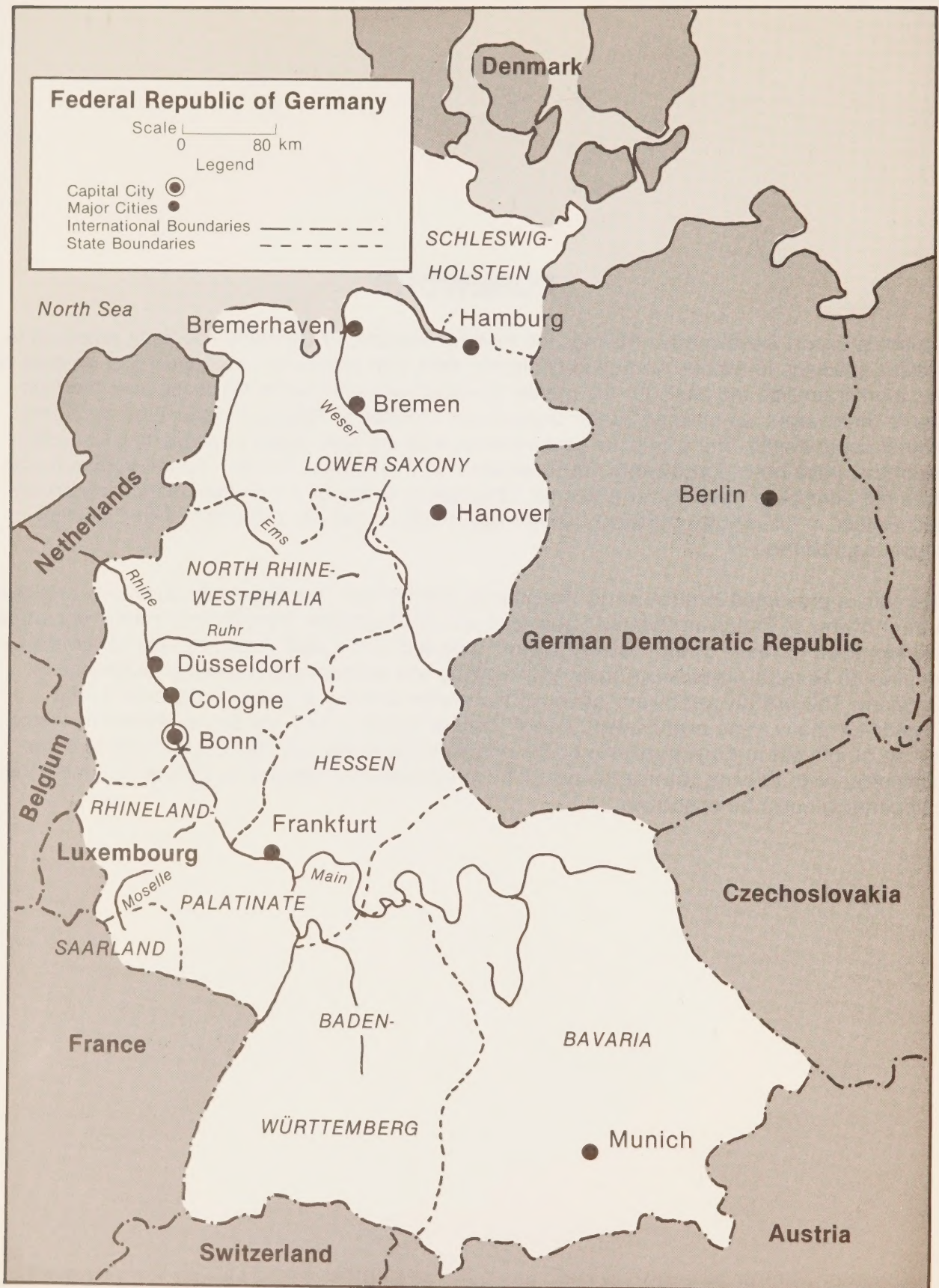
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Capital City

Major Cities

International Boundaries


State Boundaries



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EXECUTIVE SUMMARY AND ACTION PLAN

EXECUTIVE SUMMARY

Objective

The Export Development Plan for Germany is intended to assist the Canadian business community to expand its economic relations with the Federal Republic of Germany (F.R.G.), in terms both of exports and of industrial co-operation. This plan is one of a series that is being prepared as part of the federal government's policy to better focus and co-ordinate Canada's export marketing efforts.

The detailed goals of this plan are:

1. to provide a framework for federal government action and resource allocation in establishing an effective program of assistance to exporters and in fostering an environment conducive to the expansion of economic relations between Canada and the F.R.G.;
2. to design a marketing plan that takes advantage of the market opportunities and overcomes the constraints affecting Canadian exports to Germany;
3. to identify opportunities for export development and to stimulate and assist the private sector to pursue them;
4. to establish a focal point for co-ordinating the marketing efforts of the federal government, the provincial governments and the private sector.

Introduction

Germany is currently Canada's fourth largest trading partner, with two-way trade over \$2.6 billion in 1982. In addition, Germany is Canada's third leading source of foreign investment.

Over the past 15 years, the nature of our economic ties with Germany has become increasingly sophisticated and diverse. This has been illustrated by such developments as the growth in trade (sevenfold increase since 1965), the composition of our exports (consistently higher proportion of end products and processed materials), and the more intensive use of German companies or institutions as vehicles for sales into third markets. Concerning the latter, the Department of External Affairs now organizes official government exhibits at more trade fairs in Germany than in any country outside North America, and most of these events are directed at markets throughout the world. At the private sector level, Canadian companies have achieved substantial sales in Eastern Europe and the Middle East by acting as a subcontractor to companies such as Salzgitter and by selling into U.S. autopart markets via Volkswagen.

Even without investment flows, technology transfers between the two countries continue to grow, with private sector agreements on joint product developments involving companies such as Canadair and

Bombardier on the Canadian side and Dornier, Krauss-Maffei and Volkswagen in Germany.

As an importer, Germany offers an immense, diverse, affluent and open market. Traditionally, Canada has achieved its greatest success by exporting raw or semiprocessed materials to the F.R.G., most notably wood products, pulp, asbestos, copper and zinc. Recently, highly processed products have accounted for a greater share of Canada's exports. In particular, shipments of apparel, sporting goods, auto parts, electronic instruments, fur garments, and aircraft engines and parts have grown substantially. Overall, however, less than 1 per cent of Germany's imports come from Canada.

As an industrialized country with a large skilled work force, Canada has held a natural attraction for German investors seeking to diversify their financial base outside their own country across a full range of industrial sectors. The mining, energy and forest sectors have been identified as areas where co-operation will clearly benefit both countries. Germany, for instance, is heavily dependent on foreign sources for natural resources and energy. Nonetheless, the F.R.G. has developed highly sophisticated technology in these areas, and is willing to share this expertise, as well as its financial resources, to improve the stability of its long-term supply.

This plan is intended to identify opportunities for expanded trade and to develop a realistic export strategy that recognizes both the constraints and the means to penetrate the German market. It analyses past Canadian export performance, identifies future opportunities, evaluates co-ordination, and outlines an action plan to take these factors into account.

Canadian Trade Development Efforts to Date

The importance attached to Canada's economic relationship with the F.R.G. is reflected in the size of Canadian representation. With an Embassy in Bonn, Consulates General in Hamburg, Düsseldorf and Munich and a Tourism Office in Frankfurt, the level of Canada's trade resources is second only to the U.S. In addition, official Canadian representation is augmented by Offices maintained by the provincial governments of Ontario, Québec and Nova Scotia. Resources, aside from being allocated to an active bilateral trade program, are assigned also to organizing Canadian participation in leading trade fairs, to assessing the role of German companies in large projects, and to promoting bilateral industrial co-operation.

The potential for companies in both countries to benefit from technology transfers, joint ventures, direct investment or other forms of industrial co-operation has been recognized at the highest levels. In 1978, former Chancellor Schmidt and Prime Minister Trudeau agreed that more emphasis should be placed on industrial co-operation. Since then, an active program of visits by government ministers and officials has been maintained; a variety of trade and industrial co-operation missions, and two sets of state-to-state economic consultations, have taken

place. Senior officials, responsible for industrial co-operation, have been appointed in both countries and, in Canada, an interdepartmental task force has been set up to co-ordinate economic relations. Canadian commercial banks have fostered trade growth, and non-governmental organizations such as the Canadian-German Chamber of Commerce have helped create an environment in which bilateral trade links are nurtured.

In addition to trade fairs and industrial co-operation activity, a steady flow of business visits from Canada to the F.R.G. have taken place by individuals or in the form of multicompany missions organized by federal or provincial governments. Individual Canadian firms have made wide use of the financial support offered under the Program for Export Market Development (PEMD) to further trade in Germany.

In recent years, the European travel market has become increasingly important to Canada. Each year, more than a quarter of a million Germans visit Canada, and the number is growing.

Future Market Opportunities

The German government's philosophy is to apply free-market principles in the management of its economy. The government exercises the levers of macroeconomic control, but economic initiatives are in the hands of the private sector. Consistent with this approach, Germany has adopted a liberal economic stance which gives foreign exporters ready access to a leading world market for industrial equipment and high-grade consumer durables. At the same time, this open domestic market policy has resulted in German industry attaining a high level of efficiency directed toward the pursuit of export markets.

These attributes, it is believed, will help the German economy weather the current economic slump and continue to remain an important market for Canada in the 1980s. Understandably, there are many competitors for Germany's attractive trade. Since trade channels are well established, both customers and middlemen require that the would-be Canadian supplier should earn his credibility and then assiduously maintain it.

To be successful, any approach to the German market must take account of its primary characteristics: it is large, affluent, sophisticated and diverse.

The following are those sectors where it has been established that focused support by the Canadian government can play a useful role in expanding Canada's market share:

Automotive Parts

The German automobile industry, a world leader in technology and style, has major component requirements in the F.R.G. and at branch plants abroad. Opportunities for Canadian suppliers are enhanced by duty remission schemes or other agreements with German manufacturers.

Computers, Communications and Related Products
This area is an expanding field throughout West-

ern Europe and especially in the F.R.G. in such areas as terminals, systems, and communications.

Defence Electronics/Avionics

The substantial German defence equipment requirements, established bilateral institutional structures, and existing Canadian business links present multiple trade opportunities in the defence electronics/avionics sector.

Timber Frame Housing

Key figures associated with the German housing industry have given concrete indications that the energy efficiency and construction advantages of the Timber Frame method can be adopted successfully in the F.R.G.

Manufactured Wood Products

Canadian timber resources and fabricating expertise in manufactured wood products place Canada in a position to expand the sales penetration already begun, led by softwood panelling.

Sporting goods

The German interest in active recreational pursuits offers an opportunity to enlarge current exports of Canadian winter sporting goods and to capitalize on this country's growing capabilities in the production of gymnasium and summer outdoor sports articles.

Apparel

The affluent and style-conscious German consumer represents a major market potential for those Canadian apparel producers who are able to supply attractive goods in the mid and upper-mid price ranges, including furs.

Fisheries

Fish, a major component of the German diet, will continue to be supplied to a large extent from foreign sources.

Opportunities in trans-sectoral projects related to industrial co-operation and co-operation in third country markets are expected to be available to Canadian industry and their German associates, further satisfying commercial relationships between both nations.

In addition to the above priority sectors identified in the plan, opportunities in a number of related areas — particularly in the export of forestry and agricultural products; and machinery and petrochemicals — will continue to receive attention. Canadian marketing efforts are expected to maintain, and possibly expand, current market shares, with substantial assistance forthcoming from federal and provincial governments in pursuit of those goals.

Overall Strategy

The thrust of this export development plan is directed at products that offer potential for improved sales and high value-added content. It is intended to strengthen economic linkages between the two countries and consists of a mix of new and existing trade instruments that will be used by the federal government to assist Canadian firms to increase their share

of the German market. Trade development activities undertaken by the Canadian government trade offices will continue to identify the most promising market opportunities and to increase German awareness of the products and capabilities of Canadian firms.

Given the openness and sophistication of the German market, a sustained marketing effort by the Canadian private sector will be the most important element in achieving improved sales to the F.R.G. The federal and provincial governments' role is to support those efforts through a variety of instruments.

Continued use of the Fairs and Missions Program is planned. The key international fairs in Germany will continue to receive attention, with special emphasis on those dealing with industrial sectors identified here and those offering proven exposure to such other key export sectors as agricultural products. To a lesser extent, trade missions composed of high-level officials and/or of businessmen, will be organized.

Exporters will be encouraged to use the PEMD Program to carry out market assessments, to participate in trade fairs, and to sustain export market development. Complementary to those instruments are the ongoing counselling and assistance available from government trade officials and regional offices. The primary sections of the Department of External Affairs, responsible for implementation of this export marketing plan, are the European Summit Countries and EC Trade Development Division of the Europe Branch and the Embassy and Consulates General in Germany. Selected industry sector branches of the Department of Industry, Trade and Commerce and Regional Economic Expansion will assist industry in sector-specific areas to take advantage of opportunities described here.

The key to successful implementation of the plan depends upon the co-ordination and co-operation of all federal departments and provincial governments, and aggressive involvement by the Canadian business community. Consultation in the formulation of strategy with the provinces has been an essential element in guaranteeing that mutually beneficial marketing goals have been established. Discussions with businessmen and associations have provided input from the private sector into the plan. Given this co-ordinated effort, there is every reason to expect that, with aggressiveness, persistence and adaptability to the needs of the market, Canada's export objectives in Germany will be attained.

SUMMARIZED ACTION PLAN

TIMING	ACTIVITIES AND EVENTS	PRIME RESPONSIBILITY CENTRE*
Automotive Parts		
Ongoing	Identify and contact automotive parts suppliers capable of selling in the F.R.G. and encourage them to visit Germany with the assistance of PEMD-B (market identification) and PEMD-F (sustained export market development)	FAMR
	Complement the above action by selecting a group of suppliers willing to commit themselves to long term participation at Automechanika on an independent basis, possibly using PEMD-C (trade fairs)	FAMR/Bonn/ Munich
	Advise potential Canadian exporters of automotive parts of the requirements of German industry	FAMR/Munich
	Identify prospective agents (representatives) and propose visits to Canada with the assistance of PEMD-D (incoming buyers)	FAMR/Munich
1983-1984	Identify selected German automotive parts manufacturers, who can comply with Canadian policies, to establish facilities in Canada	Munich
Computers, Communications and Related Products		
Ongoing	Evaluate opportunities in the F.R.G.; bring them to the attention of Canadian suppliers of computer peripherals; and encourage them to make market identification visits with the assistance of PEMD-B	EELA
1983-1984	Follow up on the October 1982 tri-country technology mission composed of representatives of six companies in the computer peripherals sector	EELA
1983-1984	Organize an incoming and one outgoing mission in the cable TV field	RCT/Munich
1983-1984	Prepare precise data on the market potential for the specific computer peripherals manufactured by Canadian firms	Munich
1984	Sponsor an official exhibit in the CEBIT section of the Hanover Fair 1984, 4-11 April 1984.	EELA/Munich
1984	Sponsor an official exhibit at Electronica 84, 13-17 November 1984 in Munich.	EELA/Munich
Defence Electronics/Avionics		
Ongoing	Identify and pursue opportunities in the defence sector under the aegis of the Canada-F.R.G. Defence Research Development and Production (RDP) Agreement	TDO/Bonn
	Evaluate major F.R.G. defence research and development projects and identify areas in which Canadian companies can participate as subsystems suppliers	TDO/Bonn
Timber Frame Housing		
Ongoing	Sensitize German builders and home buyers to the advantages of Timber Frame Construction (TFC) through technical articles in the German construction trade press	GRPI/Hamburg
	Use additional contacts with public housing authorities in the F.R.G. to resolve regulatory problems limiting Canadian access to the market	GRPI/Hamburg
1983	Identify additional German firms, interested in using Canadian TFC building packages, and arrange contacts with selected Canadian suppliers	GRPI/Hamburg
1983	Submit proposal to the Canadian building industry and German regulatory bodies to evaluate the feasibility of a multi-unit demonstration project in the F.R.G.	Hamburg

* The symbols for contacts are listed in the Glossary of Abbreviations, page 39. The federal contacts indicated have the primary responsibility for implementation of the activities and events; others (not listed herein) may have secondary responsibilities.

1984	Identify and recruit new Canadian suppliers of building packages to participate with selected F.R.G. importing or construction firms in joint projects	GRPI/Hamburg
1984	Use the Canadian national stand at the BAU 84 Building Fair and the Constructa 1986 Building Fair to highlight the TFC method.	GRPI/Hamburg
1983-1984	Recruit companies from the F.R.G. lumber importing trade to active participation with the Hamburg Consulate General in TFC promotion seminars and information dissemination.	GRPI/Hamburg
Manufactured Wood Products		
Ongoing	Work with the B.C. provincial government to implement recommendations in the report "Opportunities for Further Processing of B.C. Lumber"	GRPI/Hamburg
	Select Canadian suppliers who could usefully visit Germany; support their efforts through PEMD-B (market identification) assistance; undertake initial market identification on their behalf	GRPI/Hamburg
1984	Organize an incoming buyers group (two agents, two furniture manufacturers) for dimension stock	Hamburg
1984	Participate in BAU '84 Building Fair with a national stand	GRPI/Hamburg
1984	Plan to participate in the quadrennial Constructa Fair in Hanover in 1986	GRPI/Hamburg
Fisheries Products		
Ongoing	Increase knowledge of the German market through participation in trade missions and attendance at key trade fairs	EFCP/Hamburg
	Report to Canadian fish companies on developments in the EEC and Germany that may affect access for Canadian fish products, and consult German authorities on related procedures	Hamburg/BREEC/ Bonn
1983-1984	Ensure that Canadian exporters are fully aware of F.R.G. requirements, regulations and tastes	EFCP/Hamburg
1984-1985	Organize seminars in key F.R.G. importing centres to introduce new Canadian quality control measures	EFCP/FANDO/ Hamburg
1983-1985	Select and introduce new Canadian exporters of food and fish to interested F.R.G. buyers at ANUGA, Cologne	EFCP/Hamburg
Sporting Goods		
1983-1984	Liaise with leading F.R.G. trade publications; provide editorial comment to promote Canadian sporting goods; and support with commercial advertising where required	EFCP/Munich/SCS
1983-1984	Undertake a mailing campaign to make Canadian sports equipment manufacturers aware of publicity available at winter sporting events in Europe and encourage their utilization	Munich
1983-1984	Identify Canadian sporting producers new to the F.R.G. market; contact and encourage these firms to participate in SPOGA, Cologne or ISPO, Munich as warranted; support participation with PEMD-C (trade fairs)	EFCP/Munich
1984	Invite journalists from leading German sports trade magazines to visit the Canadian sporting goods industry	Munich/SCS
1983-1984	Make sporting goods suppliers, exhibiting at the trade fair, aware of the benefits of returning to the F.R.G. within three months of a trade fair to visit the most promising contacts and of the availability of PEMD-B (market identification) for that purpose.	EFCP/RCT
1983-1984	Sponsor an official exhibit at Fall 1983 and Spring 1984 ISPO in Munich	EFCP/Munich

Apparel

1983-1984	Identify capable apparel suppliers, who could seek stand space at IGEDO, Düsseldorf and <i>Herrenmode</i> , Cologne as private exhibitors; contact these firms to encourage and support their participation through PEMD funding	EFOP/Düsseldorf
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Co-operation with German Firms in Third Countries

Ongoing	Continue to meet with German contracting firms active in foreign capital projects to seek out opportunities for co-operative ventures in third countries; advise Canadian companies of opportunities	Düsseldorf/ Industry Sector Branches, ITC/DREE/RCT
1983-1984	Develop a cost-effective system to inform potential Canadian participants of selected tender opportunities under <i>Kreditanstalt für Wiederaufbau</i> (KfW) financing	Bonn
1983-1984	Work with Canadian consultants, contractors and suppliers to obtain subcontract business on capital projects in third countries via German companies.	RCT/FSEI/ Düsseldorf

Industrial Co-operation

Ongoing	Work through, and assist, umbrella organizations such as the German Chamber of Commerce to encourage visits to Canada by groups of German businessmen interested in joint industrial arrangements with Canadian firms	Bonn/Consulates General
	Continue to conduct and participate in export seminars in collaboration with organizations such as the Canadian Export Association	RCT
1983-1984	Organize, and participate in, investment seminars in key cities in the F.R.G.	Bonn/Consulates General
1983-1984	Identify sectors that could benefit from German expertise and arrange industrial co-operation missions.	Industry Sector Branches, ITC/DREE

I. MARKET OVERVIEW

OBJECTIVE

Canada's Export Development Plan for the Federal Republic of Germany is designed to assist Canadian businesses to expand their bilateral economic relations. This document is one of a series of country-specific plans with a two to three-year life that puts into practice a central element of the *Canadian Export Strategy for the 1980s*. Approved by the Cabinet Committee on Economic Development, the strategy emphasizes greater focus and co-ordination in Canada's export marketing efforts.

With the objective of promoting greater trade and investment links with Germany, this export development plan:

- *creates a strategic framework* to guide the federal government in providing support to Canadian businesses and industries to increase trade development with the F.R.G.;
- *outlines a marketing plan* to seize trade opportunities and to minimize the impediments facing Canadian exports to Germany;
- *provides a working document* to be used as the basis for co-ordinating the marketing efforts of the federal government with the provincial governments and with the private sector.

The major Canadian trade objectives in Germany are:

- to increase exports of Canadian goods and services so as to enlarge Canada's share of Germany's large, sophisticated market;
- to create a suitable environment for Canadian products in Germany and to attune Canadian suppliers to the German market;
- to pursue opportunities for investment, joint ventures in third countries and other forms of commercial co-operation.

The federal government's efforts will concentrate on the following:

- assistance to exporters to take advantage of the "free" market in the F.R.G. and make their products competitive on the basis of design, quality and performance;
- liaison with German and EEC officials on behalf of Canadian industry to overcome or reduce protective tariffs and other impediments that are in effect or planned;
- support and guidance for the marketing efforts of Canadian firms in pursuing trade opportunities in the F.R.G.

THE CANADIAN/GERMAN ENVIRONMENT

The links between Canada and the F.R.G. have grown significantly in recent years as both countries became increasingly aware of their compatible inter-

ests. Germany has become Canada's fourth largest trading partner and is a major source of loan and equity capital. Through membership in the North Atlantic Alliance, both countries seek to defend and promote shared values. The F.R.G. is Canada's most important defence partner outside North America. Not surprisingly, therefore, consultations have increased on a wide range of political issues of mutual concern such as arms control and on questions related to the enhancement of our economic relationship.

Trade between Canada and the F.R.G. has grown sevenfold since 1965. The potential for additional commercial and economic links is excellent. In the late 1970s, the value of the Canadian dollar decreased in relation to the German mark, fuelling a growth in Canada's exports and opening new markets for finished products. At the same time, the potential for increased corporate investment was recognized, and that has led to a series of initiatives for industrial co-operation. After the oil price increases of the 1970s, Germany has shown a strong interest in Canada as a reliable source of its future energy import requirements.

The sense of partnership was officially enhanced in July 1978 when Prime Minister Trudeau and former Chancellor Schmidt pledged to intensify bilateral economic contacts in order to stimulate trade and other economic exchanges. That process has been followed by an active program of exchange visits by government ministers and officials, a variety of trade and industrial co-operation missions, and two sessions of state-to-state economic consultations. Included in these activities were visits by the President of the German Chamber of Industry and Commerce, the President of the Federation of German Industries, the German Economics Minister, a high level mission of businessmen from the Federation of German Industries, and several smaller industrial groups. In April 1979, an interdepartmental group of senior Canadian officials travelled to Bonn to discuss methods of increasing two-way economic activity, and that was followed by a second round of official economic consultations in December 1980. That process of developing closer ties was further reinforced in July 1981 when the two heads of state took part in official talks prior to the Ottawa Summit and each nominated a personal representative to actively pursue the potential offered by industrial co-operation opportunities. In October, after consultations with the Canadian private sector, Mr. Osbaldeston, formerly the Undersecretary of State for External Affairs, visited Germany for that purpose. His visit confirmed the will of both countries to seize the opportunities to increase trade and economic co-operation and recognized the need to capitalize on the existing momentum.

Following the election of Chancellor Kohl in March 1983, the commitment accepted by his predecessor in 1981 was reconfirmed by Mr. Kohl and reiterated during the Governor-General's state visit to the F.R.G. in May 1983.

CHARACTERISTICS OF THE GERMAN MARKET

1. Demographic and Environmental*

The Federal Republic of Germany has a land area of 249,000 km² (96,139 square miles), comparable to that of southern Ontario. Fifty-four per cent of the land is developed for agricultural purposes and 29 per cent is forest. The major population and industrial centres are dispersed throughout the country. Notwithstanding a birth rate below the replacement level, Germany has the largest population (61.5 million people in 1981) in the European Economic Community (EEC). Throughout the 1970s, the population grew by only 1.5 per cent over a 10-year period. The F.R.G. is gradually becoming an "aged" society, with its disposable income increasingly concentrated in the hands of wage earners in their prime earning years.

Germany's transportation network is extremely well developed. The country has 4,300 km (2,700 miles) of navigable inland waterways, including the Rhine River and modern port facilities such as Hamburg, Bremen and Bremerhaven. It has more than 28,800 km (18,000 miles) of efficiently run rail lines and a comprehensive road network that services the dense traffic volume common to Europe.

2. Economic

With a per capita gross national product (GNP) in 1982 of approximately \$13,200, the Federal Republic ranks as one of the world's most affluent nations. This wealth has been created by 20 years of impressive economic growth, averaging 4.9 per cent between 1963 and 1970 and 2.9 per cent during the 1970s. During the same period, inflation has kept well below the levels prevalent in other Western economies.

The manufacturing sector is traditionally the major contributor to the national wealth and remains the largest single component of the domestic economy. Its importance relative to the service sector, however, has declined in the last decade. In numerical terms, the number of workers in manufacturing dropped from a peak of 13 million in 1970 to 11.4 million in 1979. At the same time, employment in service industries grew from 43 per cent of the total work force to 49 per cent. Agricultural production has declined marginally.

The availability of manpower, historically, has been a recurring problem for the German government. From the late 1950s to the early 1970s, Germany enjoyed full employment. More accurately, a labour shortage existed, and Germany had to import foreign "guest workers," mostly from southern Europe and Turkey. In 1973 there were 2.6 million such workers in Germany, decreasing to 1.9 million by 1982. Worldwide inflationary pressures, shifts in world trade patterns, developing weaknesses within the F.R.G. economy, the gap between the qualifications of required and

available labour (skilled vs. unskilled), and the relatively low mobility of local workers combined to raise unemployment to 10.1 per cent in early 1983.

3. Macroeconomic Trends* and National Planning

One of the foundations of Germany's economic growth during the last 30 years has been the development of the "social market economy". In that economy, all interested groups, such as government, industry and labour, function in a relatively co-operative manner within a framework shaped by national interest. That has created a climate where government, industry and labour formulate their respective demands to reach a compromise that permits healthy economic growth.

Contributing to Germany's post-war success is the application of free market principles. F.R.G. governments generally stay out of the marketplace and intervene only after extensive discussion with all interested parties. Following the initial phase of post-war reconstruction, German industry underwent several difficult periods of adjustment. German companies were forced to improve the technical quality and range of their products as a result of structural changes in the economy. That has helped the country achieve its position as the world's number two trading nation today. At the same time, the F.R.G. became a leading world market for imported industrial equipment and high-grade consumer durables.

Germany's economic prospects are heavily dependent on external business and financial conditions. The effects of external competition, commodity price increases and soaring petroleum import costs on the F.R.G. economy were dampened during most of the 1970s. Tight money policies, limited internal demand and a substantial currency appreciation left the country with a healthy trade surplus and relatively low inflation rate until the end of the decade. The oil price increases in 1979, however, forced the F.R.G. into a deficit position and highlighted such weaknesses developing in the economy as a chronic services deficit and a declining competitive position on the international market. Symptomatic of these problems were the increase of Japanese products into the domestic market and a deterioration of the German marketing position in North America. In addition, excess capacity developed or became more acute in such basic industries as steel, textiles, chemicals, motor vehicles and even in such sectors of traditional strength as electrical and mechanical engineering products. Those conditions were reflected in increasing bankruptcies, declining production and rising unit labour costs.

As the current economic recession became more pronounced in 1981, unemployment rose above the politically sensitive threshold of 5 per cent. In 1982, disagreements over the strategy for addressing this problem contributed to the collapse of the SPD-FDP coalition and the formation of a new government headed by the CDU. In March 1983, the CDU-FDP coalition was elected.

* Reference Table I, page 34

* Refer to Table 2, page 34

** Refer to Table 3 page 34

*** Refer to Table 4, page 34.

In the face of a series of economic challenges over the past decades, Germany has a proven history of resilience, inflation management, wage moderation and aptitude for technological advancement. There is, therefore, every reason to expect that Germany will overcome the present economic difficulties facing most trading nations.*

4. Trade Policy and Trade Characteristics

German international economic policy is based on the principles of international division of labour and essentially the free flow of goods and capital. Official restrictions on commercial relations between Germany and other countries are minimal. Only in exceptional situations are such constraints imposed. With the exception of coal, gas and oil, industrial products do not generally face major restrictions. Thus, 80 per cent of all exports from Germany's trading partners have free access *de jure*, while another 13 per cent enter freely *de facto*. Some textile products, most notably those from East Asian countries, are restricted by quotas pursuant to bilateral conventions with the EEC. As a member of the European Economic Community, Germany is also subject to the market regulations and licensing procedures that the EEC has established for certain categories of products.

Although the F.R.G.'s balance of payments position weakened in the late seventies and early eighties, it was not indicative of a weak export position.** Exports have exceeded imports every year since 1952, including the years 1979, 1980 and 1981, when the current account suffered a deficit. In 1982, the export surplus rose to a record DM 51.2 billion. The balance of payment deficits that have occurred resulted primarily from an increasing tourism imbalance.

In Germany, approximately every fourth employed person is involved in export activities. With few raw material resources of its own, the country has had to focus its high standard of technology, skilled labour force and efficient manufacturing sector on producing goods for world markets. Germany needs vast exports to pay for its substantial imports of foodstuffs, raw materials and energy supplies, as well as for those industrial goods that can be produced more efficiently in other countries. Exports from the F.R.G. are dominated by a broad range of machinery, motor vehicles, electrical engineering products and chemical goods. Imports include a high proportion of petroleum and natural gas, food, drinks and tobacco. With oil prices rising rapidly in 1980, imports from oil-producing countries (OPEC, Britain, Norway) accounted for a growing share of F.R.G. imports. Nevertheless, Germany continues to represent an enormous market for all types of finished products, including machinery and transportation equipment.***

The Common Customs Tariff of the EEC has accentuated the natural tendency of Germany to concentrate on trade with its Western European neighbours. In 1970-1980, the member countries of the EEC pro-

duced from 46 to 54 per cent of Germany's total imports. Germany exported 45 to 48 per cent of its total shipments abroad to its EEC partners during the same period. The most important bilateral trading partners are France, the Netherlands and Italy respectively.*

In 1980, more than 86 per cent of German exports were in the following trade categories: chemicals, machinery and transport equipment, and other manufactured goods. That indicates once again the important contribution Germany's manufacturing sector makes to its export earnings.

5. Investment Policy

Investment by foreigners is not formally regulated, although cases involving the acquisition of German companies or large blocks of stock normally involve consultations with the F.R.G. government before such transactions by foreigners are finalized. Such discussions take place on a voluntary basis and are not considered restrictions against foreign investment. In line with its liberal economic philosophy, the F.R.G. has not enacted any regulations to limit the flow of capital either into or out of the country. Similarly, Germany has no controls on licences, the level of foreign investment in the F.R.G., the repatriation of profits and the payment of licensing fees. No formal approval procedures exist for incoming or outgoing investment. Under the terms of German "company law", foreign as well as German-owned companies are required to report any purchase exceeding 50 per cent of the company's equity. Foreign-owned companies are also eligible for regional development incentives.

CHARACTERISTICS OF BILATERAL TRADE

1. Trends in Canada-Germany Trade

Canada's trade with the Federal Republic of Germany totalled slightly more than \$2.6 billion in 1982. Since achieving a record level of \$3.1 billion in 1980, two-way trade has declined by 6.5 per cent in 1981 and 9.6 per cent in 1982, primarily as a result of prevailing economic conditions.

Following the period of dramatic growth from 1978 to 1980, when Canada's sales to the F.R.G. more than doubled, Canadian exports declined 21.5 per cent to \$1.3 billion in 1981. Most of the decrease can be attributed to appreciation of the Canadian dollar, to a dramatic (90 per cent) decline in gold coin sales, and to the soft economy, which affected demand for fabricated German products. In 1982, this trend eased with Canadian sales to the F.R.G. declining to \$1.23 billion. The leading commodities exported to Germany in 1982 were wood pulp (\$271 million), asbestos (\$54 million), coal (\$50 million), iron ore (\$91 million) and copper (\$46 million). The bulk of Canada's export sales consisted of raw

* Refer to Tables 5 and 6, page 35

materials and semi-manufactured goods totalling \$940 million, up 1 per cent from 1981. Finished products represented 16 per cent of Canadian shipments to the F.R.G., or a total of \$201 million. Leading finished products sold to Germany included gold coins, fur goods, office machines, and aircraft engines and assemblies. Although Germany is Canada's fourth largest market after the United States, Britain and Japan, it buys only about 1.5 per cent of Canada's total exports. Similarly, Canada absorbs less than 1 per cent of the F.R.G.'s total exports. Canada, however, continues to be a major source of copper, lead and wood pulp.

Canadian imports from Germany fell 14.1 per cent from 1981 to 1982, to \$1.382 billion. The five most important import items included passenger cars, tractors, chemicals, motor vehicle parts and beverages.*

2. Trade Policy Considerations

The bilateral Canada-EEC relationship is the dominant factor governing tariffs and access in Canadian-German trade relations. Following the Canadian government's enunciation of the "Third Option" policy in 1972, Canada negotiated a "Framework Agreement for Economic and Commercial Co-operation" with the EEC in 1976. That initiative has encouraged more extensive consultation and co-operation over a broad range of activities, including technical and scientific projects, investment and joint commercial ventures, and has focused on industrial co-operation rather than conventional trade. Although the agreement established a co-ordination mechanism, including a ministerial Joint Co-operation Committee and two standing subcommittees, it recognized the leading role of the private sector in both countries and endorsed missions linking the two business communities as the preferred method of implementation.

The three important areas of Canada-F.R.G. activity are:

a) *Consultative and Co-operative Structures*

Economic consultations were established between Canada and West Germany following the 1978 pledge by Prime Minister Trudeau and former Chancellor Schmidt to strengthen bilateral economic ties. Canada also has a science and technology agreement with the F.R.G., for matters related to discussion on pure and applied science.

b) *Trade Policy under GATT*

The framework for trade between Canada and the F.R.G. is established by the General Agreement on Tariffs and Trade (GATT), a forum in which Germany participates as a member of the European Economic Community. Currently, about 40 per cent of Canada's exports enter the EEC free of duty. Nonetheless, tariff and non-tariff barriers remain significant constraints in Canada's

trade with the European Economic Community, particularly for upgraded resources, manufactured goods and agricultural products. Access for Canada's world scale, high technology sectors, in fields such as transportation and telecommunications, where government purchasing is important, was not substantially improved by the government procurement code of the MTN.

c) *Government Procurement*

Europeans have viewed Canada's decisions on major military and transport purchases as a measure of the federal government's support of the Third Option diversification policy. In 1976, Canada purchased 128 German Leopard tanks from the F.R.G. at a cost of DM 360 million. The prime contractor, Krauss-Maffei, agreed to offsets in Canada equal to 40 per cent of the purchase price over 10 years. Notwithstanding this transaction, some concern has been expressed in Germany over the failure to receive other large contracts in Canada. In general, F.R.G. procurement complies with EEC practices, although for the telecommunications sector, which falls under the jurisdiction of the P.T.T., the regulations are less rigorous.

3. Investment Relations

Germany is Canada's third most important source of direct foreign investment, after the U.S. and Britain, with a cumulative investment of \$1.6 billion as of 1981. That represents 2 per cent of the total book value of all such investment in Canada. More than 50 per cent of F.R.G. investment is concentrated in Canadian real estate, mining and associated companies. According to German statistics, based on the cumulative value of assets up to 1980, Canada is the sixth most favoured country for F.R.G. investment.

Canadian direct investment in the F.R.G. totalled \$225 million at the end of 1978, ranking seventh in terms of Canadian investment abroad. Canadian interests in the F.R.G. are concentrated in the finance, tool and die production, electronics, machinery, packaging products, tourism and metal fabrication sectors.

CANADIAN TRADE DEVELOPMENT ACTIVITIES AND INSTRUMENTS

General

The F.R.G. represents one of the most diverse and well developed markets in the world. Intense competition from both domestic and external sources demands that the appropriate market target be carefully defined and approached in a well planned and orderly fashion. Except in the less mature sectors, the market is extremely sensitive to traditional relationships. Exporters must pay close attention to existing trade channels and must establish their credibility, often after an extensive commitment of time, before becoming an accepted force in the marketplace. To benefit fully from available opportuni-

* Tables 7 and 8, page 35-36 provide a summary of Canada-Germany trade

ties, Canadian businessmen must not restrict their trade interests simply to export sales. Intense competition may prevent wide introduction of a new product or limit entry. Those same circumstances, however, often present lucrative opportunities for joint production licensing, third-country marketing or other forms of industrial co-operation. (See Part II for more details.)

Although not an activity that is treated as a component of this plan, tourism is an important element of Canadian trade development with the F.R.G. The fact that Germany ranks second as a source of overseas visitors to Canada attests to the F.R.G.'s value as a source of tourism revenue. Program delivery abroad for the Canadian Government Office of Tourism (CGOT) is administered by the Department of External Affairs, but the planning and other head-quarter functions remain with CGOT within the Department of Industry, Trade and Commerce and Regional Economic Expansion.

Other Instruments

a) *Trade Fairs*

More than in any other country in the world, trade fairs play a vital role in Germany for both domestic and foreign suppliers. For most commodities, the German fair has become the focal point in the European marketplace as well as in markets extending to North America, the Far East and Australia.

In sectors such as sporting goods, textiles, publishing, food, packaging equipment, printing machinery and electronics, the German trade fair is the undisputed leader in its respective field. In other sectors, most notably the automotive aftermarket, German trade fairs have achieved the same status in the more limited European setting.

In comparison with North American companies, European firms single out trade fairs as the focal point for their marketing strategies, generally spending more than 25 per cent of their promotion budget on this activity or four times more than North American firms. As these trade fairs are firmly entrenched as fixtures for buyers and sellers alike, Canadian visitors to the F.R.G. should approach these events both for exposure to buyers and agents as well as to obtain feedback on market requirements and competition.

b) *Missions*

Despite the high profile that a sales-oriented trade mission to Germany can generate, experience has shown that missions that focus on technology transfer are generally more effective. In most cases, missions do not require contact with local governments and, once arrived in the F.R.G., members travel individually to meet their dispersed commercial contacts.

c) *PEMD*

The federal government's Program for Export Market Development (PEMD) provides financial assist-

ance on a cost sharing basis to businesses involved in exporting goods and services with significant Canadian content. The program is designed to assist Canadian industry to enter new or expand existing markets. The interest generated in the German market through the PEMD program in recent years indicates that it is an effective trade development tool for increasing Canadian exports to Germany.

II. MARKET OPPORTUNITIES AND SECTOR MARKETING PLANS

PRIORITY SECTOR IDENTIFICATION

This analysis of the F.R.G. market identifies a number of sectors where requirements match Canadian expertise and capabilities. Marketing efforts in those priority sectors should produce increased sales of Canadian products. The eight sectors selected for this marketing plan fall largely into two categories. The first are sectors where trade has been historically significant and Canada can increase its market share. They include automotive parts, defence electronics, fish products and sporting goods. The second category includes sectors in which Canadians have a design, capacity or other specific advantage. They include timber frame construction and computer products. Discussed separately are opportunities for joint Canadian-German participation in capital projects in third countries and co-operative industrial ventures.

The sectors included in this plan are not, of course, the only areas of opportunity for Canadian exports to Germany. As in the past, many of Canada's established exports will continue to flourish without direct government promotion. The affluent and diverse German market holds the potential for improved Canadian sales in many other product areas not highlighted in this plan.

1. AUTOMOTIVE PARTS

The Opportunity

The German Automotive industry, with a turnover of DM 126 billion (\$81 billion) in 1980, ranks third in the world after Japan and the United States. During the past two years, the industry has suffered the same difficulties that characterized the North American market during that corresponding period: slackening overall demand; a pronounced shift toward more fuel-efficient vehicles, accelerated by spiralling gasoline costs; and market penetration by Japanese producers. Despite those factors, the medium-term outlook for the vehicle producers in the F.R.G. remains good. Knowledgeable observers believe that the automobile industry will remain among the growth sectors in the F.R.G., but at a more modest rate of expansion than during the 1970s. A 20 per cent increase is anticipated in the market over the next decade.

In examining the opportunities for Canadian automotive parts suppliers in the F.R.G., several key factors must be taken into consideration:

- a) the health of the German automobile industry and, hence, the production levels of the German vehicle manufacturers;
- b) the initiative and perseverance of the Canadian manufacturer;

- c) the price competitiveness and quality of the parts offered by the Canadian supplier;
- d) the Duty Remission Agreements;
- e) the investment opportunities available in Canada for German parts manufacturers, i.e. joint ventures, licensing agreements, direct investments;
- f) the precedent set by Volkswagen in entering into a duty-free agreement.

In 1982, production of passenger vehicles in the F.R.G. reached 3,761,436 units, an increase of 5 per cent over 1981. On the other hand, utility vehicles slipped by 6 per cent to 301,220 units. Domestic manufacturers captured 75.9 per cent of the F.R.G. market in 1982, a significant recovery from the 63.7 per cent share in 1980.

The primary potential for sales by Canadian original equipment manufacturers (OEM) lies with the Volkswagen, BMW and Daimler-Benz groups. Successes have already been recorded with those firms, confirming the opportunity of substantially expanded sales. The Ford and General Motors subsidiaries have limited export interests in Canada and are unlikely to see the advantages of encouraging Canadian parts suppliers. Nonetheless, opportunities exist, since vehicles manufactured by those companies could be imported into Canada duty-free under the Auto Pact. Furthermore, the supplying of parts for "world cars" such as the Ford Escort has become worldwide and represents a supply opportunity for Canadian parts producers.

Three factors are the basis for the positive outlook of the German automobile industry. First, the rate of growth for passenger vehicles is expected to average 2 per cent per annum throughout the 1980s. Secondly, the German industry is determined to meet the Japanese competition on its own terms, with rationalization and restructuring plans demanding increased investments. Thirdly, the 1980s will see a new era of co-operation guiding the German (and European) automobile industries. Agreements such as those between VW and Nissan for export marketing and the VW-Renault project for joint development of automatic power transmissions illustrate that Europe is determined to meet the Japanese challenge.

The Potential for Canada

There is potential for the supply of parts to the major original equipment manufacturers (OEM), i.e. Volkswagen, BMW and Daimler-Benz. Established suppliers of new vehicle parts can also expect to supply OEM-approved replacement parts for the aftermarket. As a third component, the private brand aftermarket will offer opportunities in coming years if it develops as expected. Present projections, however, indicate that even a strong promotional effort would not develop commensurate sales results until acceptance of private brand parts has expanded.

Canadian exports of automotive parts and accessories to German OEMs, worldwide, amounted to

\$86 million in the year ending July 31, 1982, \$55 million of which went to the Volkswagen plant in the U.S. This was largely due to the Duty Remission Program (DRP) used by Volkswagen. That program, which also applies to BMW and Daimler-Benz, allows foreign vehicle manufacturers to reduce their import duties on vehicles exported to Canada if they purchase and export Canadian parts. Under the plan, purchases from Canada do not need to be shipped to the country where the head office of the car manufacturer is located. In the case of Volkswagen, Canadian parts can be shipped to any country and credit received under the DRP. Although those sales are not included in export figures to Germany, they are nonetheless a direct result of successful contact with German companies. The main German production plants of BMW and Daimler-Benz represent the largest potential for sales to the F.R.G. Volkswagen's strategy is to work toward integration of its North American (Canada, U.S., Mexico) operations. As a result, the opportunity for VW parts sales to Germany under duty remission terms is small relative to the potential in the U.S.*

The potential for OEM sales to Volkswagen (principally in the U.S.) has been increased as a result of the recently negotiated duty-free access agreement. In return for obtaining duty-free access to the Canadian market for its automobiles and light-duty trucks, VW must meet designated levels of Canadian Value-Added (CVA).

Commercial vehicles, a complementary group representing close to 10 per cent of vehicle production, have been identified as offering stronger growth potential than cars in the 1980s. That suggests that contacts with such firms as MAN, Magirus-Deutz, Daimler-Benz, and Faun-Werke should be cultivated to explore new markets for Canadian suppliers.

The Aftermarket

More than 50 per cent of the passenger and utility vehicles in Germany are serviced at facilities controlled by the manufacturers (i.e. authorized dealers). The rest of the market is serviced by private workshops and dealers selling parts to the growing (35 per cent) do-it-yourself market. The crucial element is that the vehicle manufacturers insist that the franchised dealers purchase only authorized replacement parts corresponding to the OEM parts. On grounds of assured reliability, a German court in September 1981 upheld this requirement. Associated with that is the understanding that the OEM parts suppliers will maintain "exclusiveness" by dealing only in the aftermarket through franchised dealers. Although the other sales outlets (i.e. unauthorized) resent the "enforcement" of that practice, the court decision has reinforced the current pattern of controlled sales.

For safety and a variety of other reasons, private dealers prefer to handle aftermarket parts produced by the OEMs or their authorized suppliers. It is therefore difficult for a traditional Canadian aftermarket

supplier to enter this market. Similarly, a Canadian OEM supplier can enter the aftermarket only through the channels stipulated by the car manufacturer and faces additional costs to sell to the private trade with similar but unmarked parts. That practice is discouraged by the automobile manufacturer.

With the inflationary squeeze making the cost of replacement parts increasingly difficult to bear, the consumer is beginning to accept the concept of quality rebuilt parts. To date, there is little or no rebuilding of automotive parts in Germany but, as acceptance of such replacement parts grows, Canadian firms active in the "rebuilt" sector should consider the F.R.G. market.

Recent Canadian Marketing Activity

Canadian automotive exports to the F.R.G. in 1982 amounted to \$14.8 million. Products shipped to third country assembly sites of F.R.G. automotive producers under the Duty Remission Agreement (e.g. Volkswagen), which accounts for the bulk of this trade, are not included in this export figure.

In addition to assistance to individual firms, the federal government has sponsored participation at Automechanika in Frankfurt and at SITEV in Geneva. Automechanika is a large, international automotive fair held biennially on even numbered years, and oriented specifically to the aftermarket. The most recent Canadian participation was in September 1982, with 25 Canadian manufacturers taking part. The show has proved extremely popular, and the results have been encouraging. The fair is international in scope and, while useful in establishing contacts with large numbers of customers from many countries, the benefits in terms of sales in the German market have been more limited. To a large extent, the sales difficulties can be linked to the formal and rigidly enforced distribution system, dominated by the major OEMs.

The federal government has encouraged investment in Canada by both German vehicle and parts manufacturers through seminars and individual contacts since March 1982. A mission recently visited Germany with the goal of stimulating investment and industrial co-operation by German parts manufacturers. Individual target firms were visited, and a seminar was conducted to outline the advantages of a Canadian location for German parts manufacturers interested in establishing a North American presence.

Similarly, the Automotive Parts Division of the Department of Industry, Trade and Commerce-Regional Economic Expansion works closely with the Canadian and U.S. offices of the German vehicle manufacturers. In conjunction with the Automotive Parts Manufacturers' Association, representatives of Volkswagen, BMW and Daimler-Benz visited Canada on several occasions during 1980-1981 in an attempt to increase supply from Canadian companies. With the Duty Remission Orders in place for German vehi-

* Refer to Table 9, page 36 for a list of Canadian automotive exports to the F.R.G.

cle manufacturers, they are now more willing than ever to seek Canadian parts. Currently, there are 10 Canadian suppliers to BMW (of which one is a subsidiary of a German firm). Daimler-Benz has proven to be a more difficult company to supply because of its lower production volumes. At last count, Volkswagen was purchasing more than \$65 million worth of Canadian-made parts from 43 Canadian companies annually.

The Ontario government has played a complementary role to foster trade growth by conducting missions of Canadian parts manufacturers to the F.R.G. and by urging German parts suppliers to consider establishing manufacturing facilities in Canada.

Canadian Success Stories

In the OEM market, Varta, Duplate, CGE, Canadian Timken, Wegu and others have benefited from the Duty Remission Orders to increase sales to German vehicle manufacturers. In the aftermarket, a number of Canadian companies (Certified, RCP, Ruff, Tridon), that have been visiting Europe for some years, have established substantial business accounts. Others, such as Canparts and Keystone, have gained recognition in the marketplace by exhibiting at Automechanika.

Market Considerations

An inescapable hurdle for any parts supplier is the task of meeting the German standards and safety regulations. All automotive parts have to be tested and approved by the *Technischer-Überwachungs-Verein* (TÜV) in accordance with the German Road Code. The TÜV service is available, at a fee and with a certain delay for testing time, to any Canadian supplier. In most cases, OEM parts, meeting the manufacturer's requirements, have little difficulty meeting TÜV regulations.

Canadian parts exports to the F.R.G. are subject to the EEC's Common External Tariff. At the present time, Germany grants Most-Favoured-Nation (MFN) treatment to all countries and the rates of duty on most manufactured goods fall within a range of 5 to 17 per cent ad valorem. When competing with Common Market suppliers, Canadian goods are subject to that tariff in addition to transatlantic shipping costs. However, the vehicle manufacturers can increase their volume of exports by selling throughout the EEC.

Most Canadian OEM parts that are built into vehicles assembled in the F.R.G. are eligible for duty drawback when they are exported (if not already covered by a remission agreement).

Considerations for Approach to OEMs

Although the following points are generalized to take into account variations from one automobile manufacturer to another, they represent observations of interest to all potential Canadian suppliers.

- i) A local agent is a prerequisite for any serious Canadian supplier to this market. With few exceptions, agents serve only one of the OEM or the aftermarket. It is rare that an agent will go against that market tradition. The automobile manufacturer prefers to deal through commercial agents rather than directly with the supplier, in the belief that an agent assumes a more neutral role and considers the needs of both parties. It is, therefore, advisable for a Canadian firm to engage a suitable local agent to represent and promote its interests ab initio. The parts supplier, with assistance from the Embassy, should first obtain provisional agreement from the German vehicle manufacturer to consider supply. Then the Canadian company will be in a position to engage a competent agent.
- ii) Although participation in the appropriate European trade fair (SITEV in Geneva for OEM or Automechanika in Frankfurt for aftermarket) is an important introductory step, a persistent campaign waged in co-operation with an agent is necessary to achieve the first sales breakthrough. The manufacturer prefers to deal with potential suppliers on a one-to-one basis, in his home territory, and with his technical people present.
- iii) The initial approach of a prospective supplier to this market should be to sell one particular component (not a variety of products). The company is expected to have the resources sufficient to retool or prepare new mouldings to meet the manufacturer's specifications at the sampling stage. (Once a product is accepted, the German manufacturer will usually provide compensation for such costs. That reimbursement by the manufacturer means that the supplier will be prohibited from dealing with unauthorized service outlets for the aftermarket.)
- iv) Most manufacturers allocate about 80 per cent of their orders to current suppliers, leaving a 20-per cent "swing" component to direct to new suppliers. If there are no new suppliers, 100 per cent of the orders are negotiated with the proviso that the 80-per cent "rule" could apply in future. That principle implies that no Canadian firms will necessarily be excluded from consideration because of satisfactory existing sources of supply.
- v) As a rule, a new supplier is never given more than 20 per cent of a manufacturer's OEM requirements for a particular item or range of items. An increase in the 20-per cent share will depend on the ability of the supplier (and of his co-suppliers) to retain their quality, reliability and price competitiveness. That limit may be exceeded for the aftermarket.
- vi) Pricing plays an important role, since manufacturers will accept only new supplier arrange-

ments if the end unit price per item to the manufacturer drops or remains the same. The prospective supplier should therefore present his most competitive export price from the start.

- vii) Close collaboration between the supplier and end user remains vital from the start, beginning with price and technical discussions, and continuing through the sample stage. Again, the local agent plays a pivotal role to ensure good communications. Quotations should be provided, and sampling done, quickly and professionally, as they are indicators of the prospective supplier's capability to handle an order.
- viii) The manufacturer requires *prompt* delivery to minimize inventory carrying costs. The prospective supplier may have to consider warehousing facilities in the F.R.G. to respond to that requirement.
- ix) Manufacturers negotiate their orders for the coming year in the October-January period. OEMs prefer not to be approached by new suppliers during that period or over the summer months.

Analysis of Canada's success

Volkswagen, Daimler-Benz and BMW have more than once expressed their willingness to co-operate with Canadian industry in order to increase their supplies from Canada. Well executed attempts have been made to convey this to potential suppliers. Why is it, then, that only a limited number of Canadian suppliers have been able to take advantage of the benefits offered under the Duty Remission Agreements, especially with respect to sales to the F.R.G.?

The reasons are as follows:

- i) an inability to meet the (often) stringent technical and quality demands;
- ii) a reluctance to consider what is incorrectly perceived as a difficult and strange market;
- iii) a lack of preparation for the initial contact;
- iv) a lack of adequate follow-up after initial contact;
- v) the focus of vehicle manufacturers on the purchase of nonfunctional (i.e. drivetrain) parts;
- vi) vehicle manufacturer limits on overseas supplies of individual OEM components.

The Competition

Domestic German parts suppliers are, of course, the major competition, followed by suppliers from other countries in Western Europe. There are 232 German parts suppliers listed as members of the German Automobile Association, who collectively produced \$15.5 billion worth of automotive parts and accessories in 1980. Of those, \$11.5 billion were exported, and more than \$3.9 billion in parts were used in the domestic market. At \$3.7 billion, the value of parts imports almost matched the net value of domestic parts used in 1980.

The above figures exclude the value of parts installed on vehicle exports and imports. German import statistics do not permit accurate breakdowns by country of origin; thus, many products are hidden in categories not strictly related to the automotive trade.

The Action Plan

A co-ordinated approach to further Canadian participation in the German automotive parts market must include the following elements:

- a) Provide more guidance to prospective exporters in terms of planning and adapting production for export, export pricing, and creating a commitment to the pursuit and maintenance of export sales; (FAMR*)
- b) Encourage visits by representatives of individual firms under PEMD-B (market identification); (FAMR*)
- c) Encourage firms showing potential and an established export commitment to apply for PEMD-F (sustained export market development); (FAMR*)
- d) Identify prospective agents (representatives) and support their visit to Canada with the assistance of PEMD-D (Incoming buyers); (Munich/FAMR*)
- e) Encourage Canadian exhibitors at Automechanika to participate for at least three years to build the company's image as a serious exporter; (FAMR*/Bonn-Munich)
- f) With many German suppliers turning to lower-cost countries to establish new production facilities, identify selected German automotive parts manufacturers who can comply with Canadian policies and encourage them to establish facilities in Canada (Munich).

2. COMPUTERS, COMMUNICATIONS AND RELATED PRODUCTS

Computers and Related Products

The Opportunity

In the F.R.G., as elsewhere, demand for information processing equipment is growing rapidly. Since no computer systems manufacturer in Germany produces all assemblies, components and interfacing subsystems, domestic F.R.G. manufacturers became suppliers to multinationals of parts and components for plants in Europe and North America. Many companies have entered the computer field in both the F.R.G. and elsewhere, to supply the original equipment manufacturer (OEM) markets. The F.R.G. market is significant, representing more than one-quarter of the total European market for computer equipment. In 1982, demand for peripherals by the OEMs in Germany was estimated at approximately \$7.2 billion.

Computer firms in Canada have demonstrated excellent export orientation. Currently, Canadian-owned firms ship a large portion of their exports to Europe.

* Refer to Glossary of Abbreviations, page 39

Although the key Canadian firms are already active in this market, the burgeoning German computer sector means that the potential for increased or new sales is excellent for those firms with state-of-the-art products and a well thought out market development program.

There are 13 major product groups that constitute the most important segments of the OEM market in the F.R.G. Specifically, Canadian firms can respond to German market opportunities in the following six product groups listed in order of their supply potential:

- 1) CRT terminals
- 2) graphic display terminals
- 3) word processors
- 4) printers
- 5) computer communications
- 6) microcomputers and systems.

The opportunities for Canadian suppliers in the F.R.G. would be maximized with a concentration of efforts in terminals (including CRT, graphics and data entry) and computer systems designed for specific applications, i.e. word processing, restaurant management, etc.

Canada's data processing industry has experienced a phenomenal growth. In 1982, Canadian computer industry revenues were approximately \$4.5 billion for hardware including computers and office machines, growing at a rate of about 20 per cent per year. In addition, an estimated \$1.2 billion revenue was realised for computer services.

Although the computer equipment sub-sector has a strong representation of Canadian subsidiaries of multinational enterprises, many of these firms have world product mandates. The computer services sector is dominated by Canadian owned firms, a number of which have revenues in excess of \$20 million. Canadian firms have chosen generally not to compete with multinationals (in fact, a number supply components) in the production of general purpose devices, but have concentrated instead on the design of innovative products that meet needs not fulfilled by other equipment.

Recent Canadian Marketing Activity

With government encouragement, there has been a high degree of rationalization in the production of computer hardware by foreign-owned subsidiaries in Canada. Canadian plants of multinational firms, as a consequence, have secured worldwide mandates for particular product lines. Canadian-owned firms have been able to develop the following capabilities in software, computer communications and specialized hardware products — all of which have met with some international success:

- Canadian-designed word processing and office communications systems;
- computer communications products developed to link computers to data networks, including packet switching;

- “intelligent” terminals, especially those suited to graphics, computer-aided learning and industrial data collection. A special high resolution terminal has been developed for Telidon applications;
- small business microcomputer and minicomputer systems for financial firms, hospitals, libraries, lotteries, manufacturers, etc.;
- custom-designed on-line computer systems for banks, hospitals, stockbrokers, map-making and retailing applications;
- proprietary software packages in data base management, file retrieval, and “user friendly” software productivity tools;
- desk top (including portable) microprocessors for professional and management applications in business.

Telecommunications Equipment

The Opportunity

Telecommunications is one of the fastest growing sectors in the world economy. In 1980, the value of telecommunications goods and services had reached U.S.\$ 200 billion, representing a 12 per cent annual growth rate during the 1970s. In 1982, worldwide shipments of telecommunications equipment were U.S.\$ 47 billion, and Arthur D. Little Inc. estimates they will be U.S.\$ 70 billion by 1987. The overall distribution of world demand for telecommunications goods and services is roughly divided into three, with North America, Europe and Asia constituting 42 per cent, 27 per cent and 25 per cent respectively. Equipment sales of telephone, telegraph and telex comprise roughly four-fifths of the total telecommunications market, although the major telecommunications growth areas in the 1980s are expected to be in satellite communications, data communications and cable television (CATV).

In the F.R.G., the government organization *Deutsche Bundes Post* (DBP) controls telecommunications services. DBP is financially independent from other F.R.G. government departments and is run more like a private company.

Although telecommunications has not been identified as a national priority in the F.R.G., steady growth has been taking place in the telephone equipment area in the change from analog to digital switching. These changes are also affecting telex services. The annual telephone market in the F.R.G. is estimated at \$1.5 billion and that of telegraph and telex services at \$100 million. Indigenous companies dominate the market.

The following sectors will exhibit the largest growth rates, albeit from small bases, in the F.R.G.: data communications, mobile radio, radio paging, cable TV and satellite communications. For example, data communications demand is expected to grow by 7-10 per cent per year to 1990 and mobile communications by 5-6 per cent per year. Cable TV has yet to be introduced in F.R.G. on a large scale.

Although the "rule of thumb" generally is that a country will not buy internationally if an indigenous manufacturer can provide the equipment, the licensing of technology and the pooling of services has created business for Canada in the U.S. and Western Europe. In fact, Canadian manufacturers have done particularly well in the telecommunications sector by allowing manufacturing abroad under license.

Canada's greatest export successes in the telecommunications area have been in the United States. Northern Telecom's U.S. subsidiary has done substantial marketing of its digital switches, and other Canadian companies have been successful in exporting telex exchanges and line equipment. Canada has first-rate R&D organizations (e.g. Bell Northern Research, Communications Research Centre of the Department of Communications, Mitel and Microtel Pacific Research) which bring results in the export market.

Canada's export successes in the data communications, satellite communications, and CATV and broadcasting sub-sectors have been more modest to date. Canadian successes are likely to come as suppliers of technology and equipment to prime contractors either U.S. or European.

Recent Canadian Marketing Activity

The more aggressive firms are already marketing in Europe. The Canadian government sponsors a stand at major European shows at which from 8 to 20 computer equipment firms are invited to exhibit. In 1983, eight Canadian suppliers of computers/peripherals participated with PEMD support at CEBIT/Hanover. In 1984, a national stand will be mounted. Also, missions are conducted, covering a number of countries, with the intent of surveying state-of-the-art practices and meeting local distributors and agents (e.g. a six-company mission to the Netherlands, the F.R.G. and Switzerland in October 1982).

The Ontario government sponsored participation at Orgatech (Cologne) in 1982 and committed substantial resources to full participation in SYSTEMS 83 which is one of the world's largest computer exhibitions and conferences. The expected follow-up sales were estimated at about \$50 million. The Québec government also participated with a mission at that fair, and many Canadian companies were involved, some with PEMD support.

In the non-telephone sub-sectors, Canadian Marconi, SPAR and Motorola have had limited success. In the satellite communications area, Canada (SPAR Aerospace) is currently participating in the Phase B of the L-SAT program, and has proposed to undertake the environmental testing, solar array subsystem and other equipment work. There may well be spin-off benefits from this work for smaller Canadian manufacturers.

Market Considerations

In this fast developing data communications field, tariffs are not a significant impediment. However,

standards compatibility poses problems. The largest F.R.G. hardware market is for telephone switching which handles voice and data traffic. In the switching area, Europe uses International Telecom Union (ITU) CCITT Standards which are not compatible with Canadian switching standards. Furthermore, the ITU has CCIR Standards for transmission, related to microwave systems. However, the European PTTs have modified CCIR specifications to "CEPT" specifications (Committee of European Post and Telecom Departments) used throughout Europe which may limit the entry of exports as a non-tariff barrier.

Products are sold on the basis of quality, performance and price competitiveness. Although Canadian firms have made some marketing impact on the computer sector in the F.R.G., a great deal of "missionary" work remains to be done to promote Canadian capabilities. The relatively small Canadian-owned firms enjoy an advantage in that they can make rapid design and production adjustments to suit customer requirements. A large number of hardware and software suppliers have been in touch with the Posts in the F.R.G. but many Canadian firms have yet to become aware of the opportunity represented by that F.R.G. market.

Products should be shipped directly from Canada to German distributors and dealers. The Canadian supplier should seek a good representative who can service the products with branch operations throughout the F.R.G. Although a few of the major computer firms have opened offices, there is no strong Canadian corporate presence in Germany.

In dealing with the traditional telecommunications market, there are three major factors which determine profitable sales potential in Western Europe and in the F.R.G. in particular: 1) structural, 2) economic and 3) technological.

Public sector monopolies affect procurement in the telecommunications area. The dominance of indigenous industries in the respective markets, and the series of tariff and non-tariff barriers (i.e. country standards rather than international standards, and delays in certification) often make sales difficult.

The major advantage of a Canadian exporter would probably be in the technological area. The technical superiority of the product, its performance, reliability and interconnection with computers, are always major factors, but so also are improved production methods and software availability. Bell's success in Saudi Arabia, including the five-year follow-on contract and NTL's success in the U.S. telecommunications market, where they have obtained the major switching contracts, have made many PTT officials aware of Canadian telecom expertise.

There are other factors that Canadian manufacturers cannot initially influence, e.g. the way Canada is perceived by the customer country, the notions of the customer about the company's capability vis-à-vis the competition, etc. After a sale, however, these factors are more within the control of the company. How they conduct themselves then determines future business.

The Competition

Canadian companies in the computer products field are frequently in a market niche where their competitors are mostly of like size i.e. small to medium. In addition to German firms, the primary competition comes from the United States, Japan and Western Europe. Together, the U.S., Italy and Japan account for 30 per cent of imports, with the balance shared by a number of other countries. However, there are ample opportunities for Canadian manufacturers of computer products to supply compatible equipment to the OEM firms and system houses for integration with their products.

A number of European telecommunications manufacturing companies, that are dominant in their home markets, are competitive to Canadian companies in other world markets; ITT, Siemens (F.R.G.), L.M. Ericsson (Sweden), Thomson-CSF (France), CIT-Alcatel (France) and Philips (Netherlands). Each are major forces in their own country. In the F.R.G., for example, Siemens dominates, with Standard Elektrik Lorenz (SEL), an ITT subsidiary, as the second broad range suppliers.

In the non-telephone equipment market, major western European manufacturers are: Philips, Marconi (ITT), Racal, GEC-Marconi, Storno, Olivetti, Sagern, Siemens, Brown-Boveri, SRA (LME), SRI (ITT), Bosch, etc.

The Action Plan

The following activities are planned in pursuit of marketing computer communications and related products in the F.R.G. market:

- a) Pursuit of opportunities identified by the tri-country technology mission, composed of representatives of six companies, which travelled to the F.R.G., the Netherlands and Switzerland in October 1982 (EELA*);
- b) Match Canadian suppliers of computer peripherals with opportunities in the F.R.G. and encourage them to make market identification visits with the assistance of PEMD-B (market identification) (EELA*);
- c) Develop more precise data on market potential for the specific products manufactured by Canadian firms in close collaboration with those firms (Munich);
- d) Sponsor an official exhibit in the CEBIT section of the Hanover Fair 1984, 4-11 April 1984 (EELA*/Munich);
- e) Assist Canadian companies with complementary products in the computer peripherals sector to develop a common approach to increase their impact on the F.R.G. market (EELA*/Munich);
- f) Sponsor an official exhibit at Electronica 84, 13-17 November 1984 in Munich (EELA*/Munich);
- g) Organize an incoming and one outgoing mission related to the cable TV sector (RCT*/Munich).

3. DEFENCE ELECTRONICS/AVIONICS

The Opportunity

NATO plans specify significant additions to the defence equipment of its major partners throughout the 1980s. Economic difficulties in the F.R.G. have slowed the pace of equipment purchasing plans. It is expected, however, that the F.R.G. will continue to shoulder its full share of NATO's defence requirements, since the German government has stated that it remains firmly committed to a strong national role within NATO. That commitment is confirmed by its substantial defence spending program: approximately \$25.0 billion in 1981, \$26 billion in 1982, \$28 billion in 1983 and \$28.5 billion in 1984. Those figures do represent cutbacks from the previous, more ambitious intentions through fiscal 1984. As such, they have forced the F.R.G. to reappraise its medium and long-range defence position. One aspect of that reappraisal has been the shelving of a series of new weapon systems in favour of a low-cost approach that stresses systems improvement and stretching the mission life of already deployed weapons. Current revised defence planning also calls for creation of new mission capabilities for existing equipment through technological modification, and for an increased level of technology to improve current mission roles. Existing long-term procurement programs that will be continued relatively unchanged through 1984 include acquisition of: Gepard A/A armoured vehicles, Leopard II battle tanks, naval vessels, helicopters, Tornado multi-role combat aircraft and the Alpha Jet.

Modern military systems will have a growing electronic component in their make-up as they continue to develop. That gives Canada the opportunity to become a significant supplier of electronics equipment and systems to the German defence forces.

A principal instrument for making the F.R.G. aware of Canadian capabilities in defence electronics has been government-to-government meetings conducted under the aegis of the Defence Research, Development and Production (RDP) Agreement. That 1964 agreement between the former Department of Industry, Trade and Commerce and the German Ministry of Defence (GMOD) is primarily intended to identify common military requirements and to share R&D costs and production. However, the reciprocal promotion of defence products and efforts to encourage industry-to-industry co-operation in product development have featured in RDP committee discussions.

Within the past two years, a number of promising new opportunities in the electronics and avionics sector have been identified. They are being actively pursued through the RDP media, by the post and by the Canadian companies concerned. The opportunities are:

a. *Perimeter Security Systems*

Perimeter security systems are intended as complementary aids to guard personnel, or as part of

* Refer to Glossary of Abbreviations, page 39

a more comprehensive security system for the protection of installations, and in some other permanent perimeter situations. The growing need for improved internal security systems offers considerable opportunity in a technical area where Canadian firms have developed considerable expertise.

b. *Maritime Patrol Aircraft of the 90s (MPA-90)*

Replacement aircraft for the current fleet of Bréguet Atlantique is planned for the end of the decade. Requirements for on-board Anti-Submarine Warfare (ASW) acoustic processors and digital displays should offer opportunities for Canadian participation.

c. *Anti-tank Helicopter*

The proposed development of the PAH-2 attack helicopter offers an opportunity for inclusion of Canadian helicopter sub-systems.

d. *Ice Detectors*

Such devices are intended for both helicopters and transport aircraft. Two ice detector units are currently being evaluated by the German Armed Forces, but only modest potential is seen at present.

e. *Flight and Tactics Simulators*

Prospects for sales of flight and tactics simulators, for a variety of F.R.G. aviation programs, should offer long term opportunities for Canadian participation.

The above is only a representative listing of current opportunities in the defence electronics-avionics sector. Additional opportunities will arise as new projects are defined.

Recent Canadian Marketing Activity

Canadian firms associated with the described market opportunities have been involved in individual marketing activities. Those firms and others have made good use of PEMD as financial support for their marketing campaigns in the F.R.G. A group of nine companies exhibited at the Defence Electronics Show in Wiesbaden in 1980. The same number of companies participated at that biennial event in Hanover in 1982.

Several Canadian firms have made frequent trips to the F.R.G. in pursuit of defence business. Some joint ventures are underway based on both Canadian and F.R.G. military requirements.

Canadian Success Stories

- i) The sales of the Canadair CL89 surveillance system and the co-operative development of its successor, the CL289, are notable successes for products in which defence electronics are a key component.
- ii) A contract for 21 units of the CAE Electronics Ltd. "Fully Automated Compensation System" (FACS), to be used with the European made Magnetic Anomaly Detection (MAD) equipment, has been concluded at a value of \$1.8 million.

- iii) CAE has supplied flight simulators for the West German Sea King Helicopters, F-104s, Tornado and Alpha Jet, and the A300 Airbus.
- iv) Leigh Instruments has sold flight data recorders and crash position indicators for the Tornado aircraft.
- v) F.R.G. continues to purchase Canadian manufactured Sonobuoys.

Market Considerations

Sales in the F.R.G. must be won against the competitive background of highly developed local capabilities. That generalization can be applied to almost any sector and is certainly true in the high technology defence electronics field. German defence product buyers have a strong orientation toward, and confidence in, German suppliers.

Customs tariffs are not applicable to defence products. Where the intention to look at non-German suppliers exists, Canadian firms find themselves amid fierce international competition. Best placed are firms from other Western European countries, which benefit from experience with previous consortia and co-operative production arrangements such as the Tornado and the Airbus. European firms also enjoy the advantages of geographic proximity, similar equipment requirements by their national governments, substantial domestic markets, common economic and commercial ties and (in many cases) greater technological resources. Furthermore, Canadian firms rarely offer "self-standing" total systems. Instead, they are in the position of seeking to supply subsystems or components to the prime manufacturer.

Budgetary constraints, including cost overruns on the Tornado fighter aircraft, have caused a number of F.R.G. programs to be cut, stretched out or postponed. Those budget cuts could affect some current projects involving Canadian companies. The reduction in German government research and development spending, reduced European collaboration, and the continuation of the F.R.G.'s restrictive arms exports policy could result in more "off the shelf" purchases. German industry is being asked to accept more of the financial responsibility for defence oriented research and development, and that may pave the way for closer F.R.G.-Canada co-operation in defence electronics to reduce costs.

Further to the Defence Research, Development and Production agreement discussed previously, Canada enjoys a specific arrangement to promote defence purchases by F.R.G. authorities through the Leopard Tank Industrial Offset Agreement.

In October 1976, the Canadian government placed an order with the German firm Krauss-Maffei AG of Munich for 128 Leopard tanks for the Canadian Armed Forces. An important feature of the contract is an enforceable industrial offset requirement that the Canadian government views as a significant aid toward establishing long term business relationships between the German and Canadian industries.

The offset agreement requires that Krauss-Maffei, as prime contractors and through its suppliers and sub-contractors, place orders in Canada in an amount equal to 40 per cent (\$90 million) of the total tank contract purchase price of DM 360 million (\$241 million based on the December 31, 1971 exchange rate). In addition, the company has agreed to use its "best efforts" to increase those purchases by another 20 per cent (\$18 million). The offset purchases of Canadian manufactured products are to be achieved within 10 years of the signing.

The offset purchases consist generally of Canadian manufactured products and services and may include selective investments made in Canada. The Canadian product or service is expected to be both economically and technically competitive.

The program is proceeding exceptionally well. Krauss-Maffei and its subcontractors have attained 100 per cent of the company's committed offsets. Krauss-Maffei is working on the "best efforts" portion of the 10 year offset purchase commitment.

The Competition

Major F.R.G. domestic capability is a primary competitive factor in the defence electronics/avionics field. Other Western European nations (France, Britain, the Netherlands) possess competing firms, and a major marketing effort is being executed successfully by a number of U.S. firms in this sector.

It is instructive to examine how major competitors structure their sales activity. All of the major German companies have offices in Bonn, usually staffed by senior retired military officers. All major U.S. firms also operate offices in Bonn. They are supplemented by the Office of Defense Co-operation maintained by the U.S. military. Its staff has easy access to German officialdom in support of American defence offerings.

The Action Plan

To increase Canadian involvement in the German Defense Electronics/Avionics sector, the following activities are planned:

- Investigate co-operative development opportunities under the aegis of the Canada-F.R.G. RDP Agreement; (TDO*/Bonn)
- Seek early involvement in major F.R.G. defence research and development projects as sub-systems suppliers; (TDO*/Bonn)
- Strengthen company-to-company relationships with F.R.G. firms, given the restrictive F.R.G. government R&D funding climate, over the next three to four years. (TDO*/Bonn)

4. TIMBER FRAME HOUSING

The Opportunity

Promotion of the Timber Frame Construction (TFC) method by the federal government in co-operation with the Council of Forest Industries of British Columbia has met with considerable success in Britain, France, the Netherlands and Japan. The prime beneficiaries of acceptance of the timber frame technique overseas have been Canadian manufacturers of plywood and dimension lumber.

The TFC system as practiced in North America is integrally linked with well-established grading systems and a limited range of sizes for both lumber and plywood. Acceptance of the system abroad means that Canadian primary wood manufacturers can service overseas markets with their standard items of production and do not have to make costly adaptations to the traditional requirements of those markets.

By virtue of its size alone, the German market deserves promotional attention for TFC. Residential construction in the F.R.G. stagnated throughout the 1970s and dropped off sharply in late 1981 and 1982. However, as the following table indicates, a strong market exists for single-family housing.

Completed Housing Units in West Germany

Year	Number of Single-family Units	Number of Multi-storey Units	Total Number of Units	Single-family Units as % of Total	Value of Total Units (in bil. DM)
1975	195,100	209,800	404,900	48	37.8
1976	207,800	154,000	361,800	57	38.5
1977	226,600	152,000	378,600	60	33.3
1978	239,500	120,500	360,000	67	43.9
1979	236,200	114,100	350,300	67	45.8
1980	249,100	130,200	379,300	66	53.0
1981	220,200	118,200	338,400	65	52.0
1982	101,598	189,026	290,624	35	55.6

Source: German Institute of Economic Research, Berlin.

The TFC system as used in Canada would offer the German market a comfortable but affordable housing alternative to the traditional masonry structure. The system can help alleviate the problem of housing lower-income families by providing lower cost single-family and low-density housing.

To establish the success of the timber frame construction method in the F.R.G., additional promotional efforts must be initiated. The TFC system could best be introduced through the sale, in the initial stages, of building packages such as the basic house framework in open-panel form. With acceptance of the TFC method, Canada could expect increased sales of lumber and construction-grade plywood.

* Refer to Glossary of Abbreviations, page 39

Recent Canadian Marketing Activity

The commercial staff at the Consulate General in Hamburg provides assistance to Canadian exporters of building products and would-be German importers of such materials and structures.

In March 1981, officials of the German Federal Ministry of Construction visited Canada to gain more insight into the TFC technique. They were convinced that the importation of Canadian building packages was one way of introducing a more affordable housing alternative to the German market. This was followed in November 1981 by a mission of representatives from six Canadian prefabricated manufacturers who spent two weeks in the F.R.G. Members participated in seminar presentations on the TFC theme in Hamburg, Düsseldorf, Frankfurt and Munich. The seminars had a dual objective: firstly, to establish contact with German builders and stimulate their interest in acting as partners for the importation and erection of Canadian building packages; and secondly, to inform a more general audience of the advantages of the TFC system.

In February 1982, the Canadian government sponsored an exhibit at the quadrennial Constructa fair in Hanover. That display emphasized residential wood frame construction and involved participation by eight Canadian companies.

In May 1982, a group of German officials, headed by the Housing Minister, visited Canada. The visit focused on Canadian housing policy, with emphasis on the advantages of wood-framed houses such as low cost and energy efficiency. Talks during the mission with a major developer concerned possible plans for approximately 60 TFC houses to be built in Germany.

In October 1982, a group of German builders, building authority officials and journalists visited Canada. The program covered all aspects of TFC. Several enquiries were generated, and TFC will be taken into consideration for several future German housing projects.

The above promotional efforts have resulted in Canadian firms speaking with about 25 different German companies regarding possible business relations. One Canadian company is particularly active in the market. Three of its homes have been erected in Southern Germany where considerable interest in 1983 and 1984 is forecast particularly for housing where Canadian components will be supplied to German builders.

Market Considerations

An advantage presented by the German market is the high level of official and public recognition of the need for affordable housing. Official interest is of particular importance to bring about modifications to building regulations that restrict acceptance of TFC throughout the F.R.G.

In the F.R.G., a form of TFC has been employed for some time by German prefabricated manufacturers who currently produce about 25,000 dwellings per year.

That form of construction is governed by standards that differ in many respects from those in Canada. As a result, the Canadian TFC approach faces a number of regulatory barriers. For example, 3.8×8.9 cm (2×4) studs used in Canada to construct load-bearing walls may be considered too thin by many building authorities in Germany, since 40-cm² cross sections are required there. In many areas, the joist floor construction used in Canada would be unacceptable, since noncombustible basement ceilings are specified.

Building regulations are by no means uniform across the F.R.G. They differ from state to state and are transformed by considerable discretionary authority exercised at the municipal level.

There are locations where the regulatory environment is not so restrictive, particularly in non-urban areas. The Canadian prefabricated producer, through his German partner or the Consulate General (Hamburg), can identify the more attractive areas in which to launch TFC sales. The German partner would in some cases have a working relationship with local bodies, resulting in a more sympathetic exercise of their discretionary authority. Canadian firms can be expected to service those small market segments with building packages.

Recently, the high cost of German housing and the crisis in the construction industry have prompted many building authorities to exercise their discretion in relaxing building requirements. A movement has been underway to change the regulations and to standardize them among various jurisdictions. The objective is to permit construction of simpler and more economical homes. Progress has already been made in some areas with the "deregulation" of certain types of homes.

The approach recommended is one of gradual "infiltration" of the German housing market. Once a number of houses are built, the benefits of TFC can be convincingly demonstrated to a larger public. Experience in other European markets indicates that, when this stage is reached, a number of German builders can be expected to adopt TFC.

The Action Plan

The thrust of the strategy is to secure adoption of the TFC method on a broad basis in the F.R.G. and thereby expand market opportunities for Canadian building materials, particularly lumber and construction plywood. Two essential steps will be preparation of a suitable environment, in terms of regulations and consumer attitudes, and the sale of housing package kits from Canada. The following activities are designed to fulfill those objectives.

- a) Expand the information bank of the Consulate General in Hamburg with regard to building regulations and other factors influencing TFC in the F.R.G.; (Hamburg)

- b) Use additional contacts with public housing authorities in the F.R.G. to resolve regulatory problems that limit Canadian access to the market; (Hamburg)
- c) Broaden exposure for TFC in the trade press through preparation of articles dealing with the technical aspects of TFC, e.g. energy conservation, acoustical insulation, fire resistance; (Hamburg/GRPI*)
- d) Submit proposals to the Canadian building industry and German regulatory bodies to evaluate the feasibility of setting up a multi-unit demonstration project in the F.R.G. to illustrate first hand Canadian styles and building methods; (Hamburg/GRPI*)
- e) Identify and recruit new Canadian suppliers of building packages to participate with selected German importing or construction firms in joint projects; (GRPI*)
- f) Use a Canadian national stand highlighting the TFC method at the BAU '84 Building Fair and the Constructa 1986 Building Fair to illustrate Canadian construction standards and methods; (GRPI*/Hamburg)
(This will take place in conjunction with promotional efforts in the Manufactured Wood Products sector.)
- g) Recruit companies from the German lumber importing trade to active participation with the Hamburg Consulate General in TFC promotion seminars and information dissemination (GRPI*/Hamburg).

5. MANUFACTURED WOOD PRODUCTS

The Opportunity

For manufactured wood products (i.e. "millwork" and "wood fabricated materials n.e.s.," but excluding manufactured housing), the F.R.G. in 1982 was Canada's sixth most important customer. In 1981, Germany's imports of manufactured wood products from Canada totalled \$2,889,000, a significant increase from the level of \$160,000 five years earlier. However, exports declined in 1982 to \$737,000 due to a severe slump in the F.R.G. construction industry. Tongue-and-groove wall panelling is the dominant export product among the diverse items in this broad grouping.

Prospects for manufactured wood products are linked to building activity in the F.R.G., for which prospects in 1983 are promising, based on the recent upswing in housing starts. Strong consumer preference for wood as a material for interior decoration offers excellent potential for Canadian suppliers. Opportunities for individual products are discussed below.

i) *Tongue-and-Groove Wall Panelling*

The growth of Canadian exports in manufactured wood products to the F.R.G. over the last decade

has been based primarily on the sales of panel products. German consumption has increased steadily from 1.1 million cubic metres in 1970 to 1.8 million in 1980. During that period, imports rose from 6 per cent of consumption to 24 per cent. Despite that increase, Canadian exports of approximately 6,500 m³ represented only 1.5 per cent of total F.R.G. imports. An important point is that Canadian panelling is able to command a distinctly higher price than that from other countries because it is made from knot-free or clear grades of western red cedar and hemlock.

Canadian softwood exports to the F.R.G. consist largely of clear grade lumber which, for the most part, is remanufactured into wall panelling. Consultants have estimated¹ that, if all of those remanufacturing activities were to be performed in Canada, this country's panelling exports to the F.R.G. would increase to a volume of 90,000 m³.

At present, exports of Canadian-made panels are restricted to those made from clear grades of West Coast species. Conceivably, panelling of knotty softwood or clear hardwood could find a market in the F.R.G. However, knotty softwood panelling would compete against Scandinavian production, with lower delivery costs, and hardwood panelling might carry a price too high for the market.

ii) *Window Stock*

Major German window stock manufacturers have been shown Canadian capabilities for supply of window stock (lumber cut to special dimensions, and profiled for window production) during a 1981 visit to Canada. The question of species preference remains to be resolved. The German manufacturers prefer Sitka spruce, which is in short supply compared to hemlock, a species equally suitable for this use.

iii) *Mouldings*

Wood mouldings shaped from clear grades of hemlock and other species represent another opportunity. Mouldings are currently produced in the F.R.G. from the Canadian raw material, suggesting that value-added benefits would accrue if efforts were made to market the finished product. That approach would bring with it the implicit commitment by Canadian suppliers to work closely with German customers to meet their requirements for dimensions, finish, etc.

iv) *Kitchen Cabinet Doors*

As a world leader in the design and manufacture of kitchen cabinet furniture, the F.R.G. presents a market for kitchen cabinet doors. All four major Canadian door manufacturers have had a look at this market, and two major considerations remain to be resolved. The quality requirement has proven to be a difficult hurdle, and containerload shipment is too large a volume for many German manufacturers of kitchen cabinets. In 1979, 15 million kitchen cabinets were produced in the F.R.G. with a value of DM 3.3 billion.

¹ "Opportunities for Further Processing of B.C. Lumber," prepared for the B.C. Ministry of Industry and Small Business Development by Joseph Ortmann, Consultant, February 1980.

* Refer to Glossary of Abbreviations, page 39

v) *Louvered Doors*

During the 1980s, this product has developed into a popular DIY (do-it-yourself) item in the F.R.G. A firm in Eastern Canada continues to make substantial exports to Germany. Nevertheless, doors of Ponderosa pine have a considerably smaller portion of the louvered door market than the cheaper doors from the Far East.

vi) *Dimension Stock*

Dimension stock is hardwood lumber that has been cut to size and may have undergone preliminary shaping or surface finishing. A major customer for these semi-finished components is the furniture industry. There have been inquiries from German wood agents listing specific requirements, offering excellent opportunities for eight Canadian manufacturers of dimension stock, all of whom are located in Eastern Canada and thereby well suited for deliveries to Western Europe. It is difficult to estimate the potential size of this market because it is not a separate component of trade statistics.

vii) *Exterior Panel Doors*

The German market is willing to pay a premium for high-quality doors. Canadian manufacturers of exterior doors in oak and cedar can make sales in the F.R.G. provided they are prepared to make the necessary changes in dimension. For example, exterior door thickness in the F.R.G. is generally 60 mm, as opposed to 45 mm in Canada. At the Canadian Consulate General in Hamburg, extensive data regarding standard German door dimensions is available to any Canadian manufacturer visiting Germany to assess market prospects.

From total shipments of \$1.13 billion in 1980, exports of manufactured wood products (excluding prefabricated housing and parts) were valued at \$221 million, increasing to \$250 million in 1981. Exports of windows and doors rose from \$3.8 million in 1979 to \$5.1 million in 1980 and to \$9.4 million in 1981. Under the millwork n.e.s. category (which includes panelling and moulding), 1980 exports were \$56 million, a decrease of \$25.3 million from 1979. In 1981, that figure increased again to \$60 million.

Recent Canadian Marketing Activity

From an industry that consists of many small firms, marketing activity has been a sporadic series of events rather than a concerted and continuous effort.

A report commissioned by the B.C. Department of Industry and Small Business Development, studying export potential for the province's wood products, was followed by a mission to Germany and Sweden. An early result was a contract with the Swedish firm IKEA for furniture components and shelves. A West Coast firm spent a number of months in Europe in 1979-1980 developing a market for its mouldings after investing in planing equipment capable of working to the requisite finishes.

Market Considerations

The F.R.G. market is characterized by well-established channels for the importation of wood and wood products. Both tariff and industry structures push toward low value-added imports rather than finished or semifinished products. The following factors will have direct relevance for the success of marketing campaigns for the whole range of manufactured wood products.

1. *Price.* The price of imported manufactured wood products is of paramount importance, since virtually all wood products can be produced by the local German industry from imported stock. Manufactured items from Canada require an expensive and careful shipping package.
2. *Quality.* This factor plays a much greater role in this market than in North America.
3. *Corporate reliability.* A Canadian company must establish and live up to an image of corporate reliability. The image is usually established in early contact with the German partner, importer or agent, based on prompt follow-up to requests for further information.
4. *German-language capability and local market know-how.* These are not essential attributes for a Canadian manufacturer. There are numerous agents with English-language capability who would welcome the opportunity to represent a Canadian manufacturer.
5. *Market channels.* The traditional and structured German importing channels remain the primary conduit for moving wood products into this market.
6. *Standards.* Through national product standards (Deutsches Institut für Normen-DIN), dimensions and configurations are set down in detail for panelling, doors, windows, etc. The standards vary from those used in the North American market.
7. *Tariffs.* These are in the 5-per cent range for most manufactured wood products.

The Competition

South African, Far Eastern and, particularly, Scandinavian suppliers are well-known in the German market. In recent years, the Scandinavian countries have accounted for more than 80 per cent of the volume of planed softwood imports. Domestic producers provide the greatest competitive challenge in terms of both price and quality. Complementary to its lumber imports, Germany has both large forest and large manufactured forest product industries which are technically up-to-date and world leaders in particleboard technology.

American exports of manufactured wood products have been limited. However, the major German panelling manufacturer, Ostermann und Scheiwe, has established a manufacturing subsidiary in Washington State that is largely oriented to supplying the

German market. Ostermann und Scheiwe's action suggests that encouraging similar direct foreign investment from the F.R.G. in the forest industry could be a way to increase the sales of manufactured wood products from Canada. Two German firms have already expressed interest in such corporate participation.

The Action Plan

To pursue the goal of increased exports of manufactured wood products, the following activities are planned:

- a) Select Canadian firms which are strongest in sales of manufactured wood products through contact with domestic trade associations, shippers and wholesale and retail building supply dealers to visit the F.R.G. market as part of a mission or using PEMD-B (market identification); (GRPI*/Hamburg)
- b) Work with the B.C. provincial government to implement marketing actions in response to the report "Opportunities for Further Processing of B.C. Lumber"; (GRPI*/Hamburg)
- c) Organize an incoming buyers' group (two agents, two furniture manufacturers) for dimension stock in 1984; (Hamburg)
- d) Participate in the BAU '84 Building Fair and the Constructa Building Fair in 1986 with a national stand to present the highlights and advantages of the TFC method. (GRPI*/Hamburg)

(This will take place in conjunction with promotional efforts in the Timber Frame Housing sector.)

6. FISHERIES PRODUCTS

The Opportunity

With an average per capita consumption of 9.7 kg of fish per year, the Federal Republic of Germany is a substantial importer of fish and fish products. In past years, Canada has become an important supplier of which herring became the predominant Canadian fish export to Germany, and attractive markets also developed for salmon and lobster. Canadian herring is slowly losing its market share to North Sea herring, mackerel and other substitutes, and shipments will likely decline to below 15,000 tonnes annually. It is expected that, since the North Sea stocks have been replenished, even more herring will be available for the F.R.G. market in the years to come. Salmon is expected to increase slightly to approximately 1,500 tonnes, and lobster should show solid growth through 1985, reaching close to 500 tonnes per year. Groundfish products, which reached 3,150 tonnes in 1982, should increase substantially in the long term. This will depend to a large extent on the value of the Canadian dollar, the competition, and on the effect of the Long-Term Agreement (LTA) recently negotiated with the EEC, which should improve Canada's export position for groundfish.

Until recently, a significant portion of German needs were caught by the German deep-sea trawler fleet. However, the worldwide extension of fisheries jurisdictions in 1977 has led to a dramatic shift in the pattern of fish supply and demand throughout the globe. The German fleet has been excluded from traditional areas by that movement. Combined with the closing of North Sea herring fisheries in 1977 due to a dangerous decline of stocks, that shift has led to overcapacity in the F.R.G. deep-sea fleet. Although herring fishing in the North Sea was re-opened on a controlled basis, since 1981, it remains an uncertain source. Some attempt has been made to fish for alternate species in new areas, but that has been only a partial answer. Due to these factors, Germany will become increasingly dependent on foreign suppliers of fish in order to maintain its processing industry, which employs about 30,000 people. This represents an excellent opportunity for the export of Canadian fish products. Additionally, possibilities for joint ventures are being examined, which could improve the Canadian presence in the German market.

The Long-Term Agreement on fisheries with the EEC affords the F.R.G. major quotas for cod fishing within the Canadian economic zone. In return, reductions were made in the tariff schedule for Canadian cod entering the EEC. As a result, sales of Canadian cod to the F.R.G. have risen appreciably.

The Canadian Fishery Industry

In 1982, the industry produced a landed value in excess of \$830 million and a product value in excess of \$1.93 billion. Of that, 83 per cent (nearly \$1.6 billion) was exported, making Canada the world's leading exporter of fishery products for the third consecutive year in terms of value. Of that export volume, 55 per cent went to the United States, 16 per cent to the European Community, 7 per cent to other European countries, 15 per cent to Japan, and the balance to a number of smaller or less developed markets in other countries.

Recent Canadian Marketing Activity

The Consulate General in Hamburg, the prime German post for fisheries products, has been actively involved in promoting the sale of Canadian fish products in Germany. This office, in collaboration with the ITC/DREE* regional offices in Atlantic Canada and with ITC/DREE Ottawa and Fisheries and Oceans Ottawa, have played an introductory role in virtually every business linkage between Canadian fisheries exporters and their German trade partners. It is worth noting that the Program for Export Market Development (PEMD) has been extensively used by Canadian fish products exporters developing the German market in recent years.

In the ongoing promotion of Canadian fish products, the following discrete marketing activities have been undertaken:

* Refer to Glossary of Abbreviations, page 39

* Refer to Regional Offices' addresses, page 38 and to the Glossary of Abbreviations, page 39

- i) Incoming buyers' mission, September 1979;
- ii) Outgoing mission to Germany, May 1979;
- iii) Government participation at German food fairs, ANUGA 1979, 1981, and 1983;
- iv) The opening by Canadian industry of sales offices in Germany in 1979;
- v) The Annual Fisheries Council of Canada Convention (useful meeting site for German buyers), Ottawa, May 1981;
- vi) Worldwide fisheries marketing study of 1979, revised in 1982 (a joint effort by Fisheries and Oceans, ITC/DREE and private industry);
- vii) A meeting between members of the Fisheries Council of Canada and members of the German Processors Association to study the possibility of forming a joint Canada-Europe industrial co-operation working group for fisheries.

Canadian Success Stories

One of the main factors leading to increased sales, was the introduction of the 200-mile fisheries zone by Canada in 1977, to curtail the quantity of fish that had been caught annually, up to then, by foreign fleets. Since 1977, Canadian suppliers have been able to enter the West German market more easily and to build up business relationships with German importers. The approximately \$62 million worth of fish traded between Canadian exporters and German importers in 1980, and the approximately \$64 million traded in 1981, attest to Canadian success in exploiting this opportunity.

Success has been tempered by two factors, namely, the tendency of some Canadian fishery suppliers to treat the F.R.G. as a market of opportunity, to be exploited only when the North American market is less attractive; and the high value of the Canadian dollar compared with currencies of other European competitors.

Market Considerations

Tariffs and market regulation restrictions impede free access to the German market. Member states of the EEC jointly negotiate protection of fish stocks and conclude bilateral agreements. Canada has recently negotiated a long-term agreement (LTA) with the EEC that results in tariff reductions for certain species and quantities. Even with those changes, Canadian products will still have far from duty-free access to the EEC, a privilege Iceland now enjoys. Norway faces a tariff of only 3 per cent.

The Common Fisheries Policy, signed in January 1983, affects the market by changing the price structure for fish products and its relation to the price of alternative products. It brings recourse to such measures as the reference price system that could directly affect Canadian exports.

As a member of the EEC, Germany would be required to adhere to such a reference price system, which governs import price levels from third countries. That reference price represents, for certain

species, the minimum price at which exporters must sell their product.

There are no non-tariff barriers for fish products into West Germany other than the requirements of the German food law (maximum content specifications for mercury, chromium, pesticide residues and preserving agents). Finally, Canadian fish products face higher shipping costs than competitive fish from grounds nearer West Germany (e.g. the North Sea and Scandinavian waters).

Germany is not a spot-sale market, and German importers and processors expect a long-term, dependable relationship with their Canadian business partners. A worldwide reduction in herring supply, which did not affect Canadian fishing grounds, allowed Canada to become the major supplier of herring in Europe. Although the statistics are not clear, it seems that more than 20 per cent of herring import requirements have been shifted to mackerel and pilchard in recent years due to increased prices. As a result, customers are now showing acceptance of those species as a satisfactory substitute for the more expensive herring.

The Competition

As noted previously, the Common Fisheries Policy favours fish caught by EEC member countries and, to a lesser extent, Norway and Iceland. Despite the difficulties occasioned by the declaration of 200-mile offshore fishing zones, the German fishing fleet still remains an important supplier of fish for the F.R.G. industry.

The German government is concerned with the increasing dependence on imported fish and is attempting to reverse the trend. They are promoting substitutes for traditional fish imports and attempting to obtain maximum access to EEC and other waters, especially through joint-venture agreements.

The Scandinavian countries and Iceland enjoy preferential access, and they are established suppliers of a substantial portion (43 per cent) of the F.R.G.'s fish imports.

The Action Plan

Although Canada has some of the most modern processing plants in the world, much of the Canadian fishing industry still approaches marketing very much on a commodity basis. Technological orientation and innovation must be fostered to maintain an aggressive new-product and process development program.

The Canadian government can encourage that trend through use of the Enterprise Development Program (Innovation) and PEMD-Food, coupled with the identification of major areas of technological development and product markets.

To improve Canadian penetration of the fish and fish products market in Germany, the following activities are planned:

- a) Stimulate the upgrading of process technology; (EFCP/FANDO*)
- b) Select Canadian firms and encourage them to establish direct industrial co-operation ventures with the F.R.G. fish marketing and processing industry; (EFCP*/FANDO*/Hamburg)
- c) Ensure that Canadian exporters are fully aware of the F.R.G. fish market requirements for quality, labelling, pricing, distribution channels, regulations and product presentation; (EFCP*/FANDO*/Hamburg)
- d) With a Canadian national stand at ANUGA 1983, select and introduce new Canadian exporters to interested German buyers; (EFCP*/Hamburg)
- e) Report to the Canadian fish industry, on a timely basis, on regulatory developments in the EEC and Germany that may affect access for Canadian fish products, and consult German authorities on related procedures; (Hamburg/Bonn/BREEC*)
- f) Organize seminars in key F.R.G. importing centres to introduce new Canadian quality control measures. (EFCP*/FANDO*/Hamburg)
- iv) Many of the active sporting associations channel the demand of their members toward highly-specialized outlets where participant-clients demand superior quality, with price a secondary consideration.
- v) Although Canada produces a range of indoor and outdoor goods, and for both the warmer and the colder seasons, it is the products associated with winter sports that have traditionally represented Canada's major strength in the German market. An exception is in alpine skiing equipment, where Canada has very limited potential due to the pre-eminence of European supplies. Hockey equipment from Canada has a premier reputation in the world and dominates the F.R.G. market, although future growth is anticipated to be less spectacular than in recent years. Some associated marketing opportunities exist for winter outerwear. Since Canadian styling is designed primarily for the North American market, it is necessary to identify acceptable European styles and design separate lines in order to successfully penetrate this market.

7. SPORTING GOODS

The Opportunity

The F.R.G. is an affluent and discriminating market with substantial discretionary income for leisure-time pursuits. It is an excellent market for sporting goods, which grew by 12 per cent from 1979 to 1980 and by 4.2 per cent in 1981 from 1980. Imports accounted for about 40 per cent of the demand in 1981.

In that year, German domestic shipments of sporting goods reached DM 4.4 billion, of which DM 900 million were exported. Imports of DM 2.2 billion were 10 per cent more than in 1980. Although excellent growth has been shown since the mid-1970s, Canadian exports of sporting goods to the F.R.G. remain modest in their absolute value: in 1981 sales totalled \$4.4 million, down from \$5.2 million in 1980. (The latter figures do not include sales of jogging suits, swimwear, gymnastic shoes, ski boots and camping equipment.)

The German sporting goods market can be characterized by the following points:

- i) The domestic German supplier industry is dominated by small and medium-sized businesses, with the exception of some very large manufacturers (Adidas, Puma).
- ii) Germans are recreation-oriented and enjoy increasing leisure time.
- iii) Until recently, sporting goods were retailed primarily by specialized stores. More and more nontraditional outlets now retail sporting goods of lower quality. At those latter outlets, emphasis is often on moving large volumes of price-sensitive goods in response to current fads.

In addition to their established capabilities in the winter sports area, Canadian firms are able to respond competitively to market requirements for gymnasium, bodybuilding, fishing, camping and hiking equipment. Nevertheless, Canada to date has made only minor inroads into the DM 6-billion sporting goods market in the F.R.G.

The Canadian Sporting Goods Industry

The Canadian sporting goods industry consists of nearly 200 manufacturing establishments employing 7,000 workers. In 1981, these firms produced consumer goods valued in excess of \$475 million, of which 21 per cent (\$102 million) was exported. The product range includes hockey equipment, swimming pools, gymnasium and fitness equipment, archery, billiards, scuba equipment, bicycles, camping-hiking and skiing equipment, and fishing gear, etc. Exports of many of these products have averaged an annual growth of 32 per cent since 1977, reflecting trends toward increased leisure-time pursuits and physical fitness activities and the recognition of the superior quality of products manufactured in Canada.

Recent Canadian Marketing Activity

Two of the world's largest sporting goods trade fairs are held in Germany: ISPO in Munich and SPOGA in Cologne. Canada's unbroken participation in ISPO since 1976 has contributed toward its reputation as a competitive supplier of quality products. The national stand at ISPO, paralleled by PEMD support for individual SPOGA participation, has proven exceptionally profitable for Canadian exhibitors. The Canadian stand at ISPO Spring is considered the world's premier display of ice hockey equipment.

The more active Canadian exporters have developed excellent agency relationships with the major European distributors of sporting goods. ISPO Spring '82 attracted 34 Canadian exhibitors, who had \$5.5 mil-

* Refer to Glossary of Abbreviations, page 39

lion on-site sales, with anticipated follow-up sales of \$26.3 million. The Canadian companies appointed 31 agents during that show. ISPO Fall '82 drew 17 Canadian exhibitors (eight companies participated for the first time), where sales amounted to \$682,000, and follow-up sales are estimated at \$11.5 million. Ten agents were appointed during the fair.

The federal government has also assisted sporting goods manufacturers through incoming buyers' missions to the annual Canadian Sporting Goods Association Convention and Trade Fair in Montreal.

Canadian Success Stories

In the vanguard of Canada's sporting goods successes have been the world famous hockey equipment firms. Shipments from CCM, Cooper, the Warrington group, Daoust-Lalonde, Orbit and St. Lawrence Manufacturing have made extensive inroads into the German market, with exports increasing from \$400,000 in 1975 to more than \$3.5 million in 1980.

Bodybuilding and physical fitness are among the fastest growing sectors in sporting goods. Success in Germany has been achieved by Weider Sports Ltd., the world's largest manufacturer of bodybuilding equipment, and Global Gym, which features sophisticated, multi-station equipment for institutions.

In non-hockey recreational areas, exports have grown from under \$200,000 in 1975 to \$1.6 million in 1980. Canadian camping supplies, backpacks and tents are entering the German market through the marketing efforts of Johnson Diversified, Reliance Products and Coughlan's Ltd. Strong future development potential remains to be exploited in this area.

Market Considerations

The German market is fiercely competitive, with traditional sources of supply and a capable domestic industry. Well known brand names are favoured and quality at a competitive price is often a key factor. In some cases, the manufacturer must be sensitive to design or style variations necessary to satisfy the tastes of German consumers.

Although not strictly required by law, official approval by a testing institute such as the TÜV can be an important factor in securing buyer approval for many sports equipment products. The normal range of costs for TÜV testing is from \$1,000 to \$2,000, and processing the application takes approximately six weeks. The Canadian exporter must expect to absorb these costs as part of his market development strategy. A reliable local agent has often proven to be an essential expeditor to ensure that the Canadian application receives prompt handling.

The EEC Common External Tariff structure applies to Canadian exports. In most cases, the duty levied adds an appreciable, but not prohibitive, element to the delivered cost of sporting goods.

i) Distribution Channels

Agents, importers and distributors play a vital role by supplying about 32 per cent of the market. Ten per cent of goods are channelled to retailers by the three main centralized purchasing organizations. Because of the changes occurring in the distribution structure for sporting goods, the Canadian supplier must be careful in selecting a strong local presence. The first contacts with importers-buyers should be made from December to mid-January for winter goods, and from August to the beginning of September for summer and year-round articles. The major purchasing decisions are made before the trade fairs take place, although immediate sales on a purely sample scale can still occur with striking new items.

ii) Trade Fairs

Presence at appropriate fairs is obligatory for any exporter, established or new, since it demonstrates a commitment to the market. The fall edition of ISPO is clearly the best show for indoor and summer sporting goods and summer sportswear. The spring edition of ISPO is the strongest show for winter goods, skiwear, etc. SPOGA appears to be evolving as predominantly a garden, equestrian and camping fair. Previous participation at ISPO and SPOGA sponsored by the Canadian government has brought commercial success for most exhibitors.

The Competition

In addition to the sizeable production capacity in the F.R.G., the major competition for Canada comes from Italy, Austria, France, the U.S. and Scandinavia. While the United States emphasizes summer and year-round equipment, the others offer winter equipment. The Far Eastern and East Bloc countries dominate the lower price range for many of these items, including skates. All of Canada's major competitors participate in the ISPO and SPOGA trade fairs with government-sponsored national stands and have extensive trade networks throughout Europe.

The Action Plan

Marketing efforts focus on the Spring and Fall ISPO shows. Winter sportswear is an additional area that has been identified and should be pursued vigorously at the Spring ISPO.

A number of specific actions are identified:

- a) Pursue an active publicity program in conjunction with participation in major trade fairs such as ISPO. Advertising without linkage to the company presence at the German trade fair(s) will be largely ineffective, since those elements are complementary. Most German trade magazines provide, free of charge, editorial space equal to the advertising space taken; (Munich/EFCP*)
- b) Invite journalists from the leading sports trade magazines to Canada to write feature articles related to Canadian capabilities; (Munich)

- c) Make Canadian sports equipment manufacturers aware of publicity available at winter sporting events in Europe and encourage its utilization; (Munich)
(Prime examples are a banner at the finish line of a skiing event or on the boards at a hockey tournament. Prices begin at \$1,500 and vary, of course, according to the prestige of the event. As part of the same tactic, investigate possible endorsement of Canadian products by Canadian sports figures of international reputation.)
- d) Support a PEMD-B (market identification) commitment for the company to return to the F.R.G. (and neighbouring markets) within three months after participation in the trade fair to visit the most promising contacts; (EFCP/RCT*)
- e) Sponsor an official exhibit at the Spring and Fall ISPO 1984 shows and support participation in 1985. (EFCP*/Munich)

8. APPAREL

The Opportunity

The West German apparel market is the largest in Europe and the second largest worldwide (after the United States). A German family (two adults and two children) spent on the average \$1,100 on clothing in 1981. During the preceding year, imports accounted for \$4.4 billion out of retail sales of \$9.9 billion. Other European sources supply the largest share of those imports, joined, to a lesser degree, by Far Eastern competitors. Canada's share of the market for apparel (other than fur) fell from a high of \$2.8 million in 1981 to \$1.8 million in 1982. During the same period, fur apparel sales fell from \$27.9 million to \$25 million.

Per capita income in Germany was more than \$14,000 in 1982. With a high propensity to buy consumer goods, the population of 61 million represents an attractive market.

In Germany, the market for lower-end, price sensitive goods is dominated by products from low-wage countries, which enjoy easy access. At the top end of the price spectrum, high quality and image merchandise offer difficult competition because of the established presence of European designers. Given those constraints, the market for Canadian products can be defined as the upper middle price range, consisting of merchandise created with flair and imagination, but at the same time adapted to European tastes.

The product categories where Canadian firms have met with success in the last two or three years include active sportswear, knitwear and jeans for men, women and children. Cold weather and leather (including suede) outerwear garments have gained considerable recognition as well designed, durable products of good quality. Fur goods have found an excellent market in the F.R.G., although there has

been a decline of 10 per cent in 1981 from 1980, due largely to a softening of economic conditions. Products can be sold through large department stores that present their own in-house fashion exhibitions, where selected manufacturers are invited to show their products, or by exhibiting at fashion fairs like Pelz Messe in Frankfurt, IGEDO in Düsseldorf and "International Fashion Week" in Cologne.

Independent and chain stores are the most important outlets, with 69 per cent of the market, followed by department stores (18 per cent) and mail order companies (7 per cent). Buyers obtain their products from factories (61 per cent), importers or wholesalers (16 per cent), buying associations (12 per cent) and through direct imports (9 per cent).

The importers and wholesalers group totals about 1,500 firms, responsible for a turnover of nearly \$4 billion in 1980. Department stores and large chains may buy from wholesalers or importers but prefer to import directly or through an agent. Commission agents also play a role and have their own association, which is prepared to help find an appropriate representative. For retail stores, spring and summer apparel is purchased from September to November, while fall and winter merchandise is bought in the January-April period. A manufacturer should not consider trying to sell outside of those periods.

The Canadian Apparel Industry

The Canadian clothing industry accounts for 6 per cent of employment and about 3 per cent of shipments in the manufacturing sector. In 1982, it employed 108,400 persons and had estimated shipments of \$4.48 billion. The majority (70 per cent) of the 2,300 Canadian garment manufacturers are established in Québec. About 35 firms are foreign owned and larger than average in the industry. They produced approximately 10 per cent of total industry shipments. Despite the pressures of imports in the period 1976 to 1981, shipments have increased from \$2.9 billion to \$4.5 billion, and exports from \$105.8 million to \$263.7 million. Of most Canadian clothing exports in 1981, 52 per cent were shipped to the United States, representing a 58 per cent increase over 1980.

Recent Canadian Marketing Activity

Prior to 1977, and largely because of the Canadian exchange rate, Canadian efforts in Germany were rather restricted. With a more favourable rate of exchange, more firms started to devote attention to this market. In 1979, 1980 and 1981, Canada officially participated in the Men's Fashion Week in Cologne, attended SPOGA in the same city in 1978 and 1979, and ISPO in Munich in 1980, 1981 and 1982. Although a few individual firms have participated in the important International Fashion Fair (IGEDO) held in Düsseldorf, Canada has not officially participated in the event. On the other hand, 12 to 15 Canadian fur garment manufacturers regularly exhibit at the Pelz Messe Trade Show, resulting in

* Refer to Glossary of Abbreviations, page 39.

substantial business. Since mid-1981, there has been a marked decline in the number of Canadian firms visiting the West German market, due to less than encouraging market conditions.

Canadian Success Stories

Canadian apparel sales in the F.R.G. increased four-fold between 1978 and 1980. In recent years, however, adverse market conditions and changes in currency differentials have contributed to a contraction in sales. Nevertheless, success stories include:

- i) *Jeans*. A Montréal manufacturer has, in the last two years, set up a sales organization and warehouse in West Germany and is currently enjoying sales of approximately \$1.5 million annually.
- ii) *Furs*. West Germany is Canada's third largest market for fur garments, taking up 15 per cent of total fur exports. Among the major suppliers of quality furs are John Joth, Amsel and Amsel, Natural Furs of Montréal, and W. Einhorn Furs of Toronto.

Market Considerations

Before trying to enter the German market, potential suppliers must address the following points:

1. *Fashion*. It is important to know the styles and colours that are in fashion in the country.
2. *Quality*. Despite a strong component of lower quality clothing imports, the market is excellent for mid to high quality products.
3. *Price*. German buyers will pay for better quality, but at competitive prices. Exporters should be prepared to quote c.i.f. prices and, if possible, duty-paid delivery prices.
4. *Delivery*. A manufacturer risks blacklisting for late deliveries. That is especially true in the early stages of a trade relationship.
5. *Commitment*. The Canadian supplier must not use Germany as a market of opportunity to be neglected when North American demand is strong.
6. *Tariffs*. Tariffs represent a significant hurdle. Most apparel from Canada faces a 16.5-per cent duty imposed by the EEC on the landed value. The exception is baby clothing, which carries a duty of 10.5 per cent up to a specified maximum size.

The Competition

Competition for high-quality products at middle to high prices comes mainly from other European countries and, to a lesser extent, from the United States.

The Action Plan

A key step will be to strengthen Canadian participation in the appropriate German trade fairs. Individual suppliers should be encouraged to use PEMD support to enter IGEDO/Düsseldorf and Mens Fashion/Cologne. Specifically, it is proposed to identify capa-

ble apparel suppliers who could seek space at IGEDO and *Herrenmode* as private exhibitors, and support their participation through PEMD funding. (EFCP*/Düsseldorf)

The preceding eight marketing plans have described opportunities in specific sectors. Two additional areas — namely, “co-operation in third countries” and “industrial co-operation” — offer major scope for expanded Canadian-German economic links. Both areas span a number of sectors of Canadian industry. Individual situations that arise under the classification of third country co-operation or industrial co-operation will involve one or more Canadian business sectors, depending on the nature of the project. Discussions on each of those two areas of opportunity follow.

9. CO-OPERATION WITH GERMAN FIRMS IN THIRD COUNTRIES

The Opportunity

German companies, experienced in capital project work, have traditionally been active in East Bloc and in third country markets and have achieved impressive results. The working committee on major projects (representing 42 member companies) of the German Association of Machinery and Plant Construction (*Verband Deutscher Maschinen und Anlagenbau e.V.*) reported that 1981 export orders reached \$10 billion, an increase of 45 per cent over 1980. The export proportion of the total volume of orders was 77 per cent. New orders have continued to match that pace despite fierce competition, particularly from Japan and the United States. Since discussions were initiated in 1979, several major German firms active in this field have expressed an interest in joint project activity with Canadian partners.

Another area of considerably lesser magnitude, where opportunities for Canadian firms exist, is on projects financed by the German development agency, *Kreditanstalt für Wiederaufbau (KfW)*. German aid is largely untied, with the exception of a few area such as consulting services, shipbuilding, nuclear plants and locomotives.

The traditional strengths of German industry are reflected in the nature of capital projects secured by member companies of the *Verband Deutscher Maschinen und Anlagenbau e.V.* Of the \$10 billion in export orders in 1981, the major sectors were:

Type	Value (CAN\$)
Construction and building materials industry	\$2.0 billion
Steel mills	1.3 billion
Rolling mills	1.2 billion
Electrotechnical	1.0 billion
Organic chemical plants	760 million
Electrical equipment	634 million

On a political basis, Canada and the F.R.G. present a compatible image for joint project activity in third countries. In Eastern Europe, including the U.S.S.R.,

* Refer to Glossary of Abbreviations, page 39

the tradition of trading with Germany and respect for German industrial capabilities provide added incentive for Canadian firms to work with German companies in particular areas of expertise.

Canadian Capabilities

Canada's strong competitive position in infrastructure projects (e.g. transportation, power, communications) has been established for many years.

Export capability in industrial complexes is centered mainly in two fields: 1) extractive industries, e.g. oil, gas, mining; 2) forestry, e.g. pulp and paper mills.

An Assessment of Canadian Firms by Functional Type

The five main groups of Canadian participants in capital projects include:

- i) *Engineering Consultants.* In terms of international performance, Canadian consultants have been more successful in pursuing projects abroad than manufacturers and contractors. Although major Canadian engineering consultants rank among the largest in the world, they do not have a large asset base, whereas German consultants and contractors are frequently linked with large business groups that can provide the necessary financial support.
- ii) *Project Management-Prime Contractor.* Canadian-owned contracting firms have been less active in pursuing overseas work than consultants, primarily because of the greater risks involved. There are some large contracting firms executing capital projects in Canada. A number of them are subsidiaries of foreign (usually U.S.) companies that have been established to participate in major Canadian capital projects in the resource exploitation and petrochemical fields.
- iii) *Machinery and Equipment Manufacturers.* Although Canadian firms have a much stronger asset position than consultants or contractors, they do not as a rule take the lead in capital projects. A major deterrent is the problem of joint and several liability. Recently, some major Canadian manufacturers have taken a lead role in putting together goods and services for projects.

About 100 large firms export major equipment and components. Of those machinery and equipment manufacturers, some 40 to 50 appear to meet the following criteria for participating in a consortium acting as prime contractor:

- sufficient size, in terms of both number of employees and financial capability;
- competitive product and technological advantage;
- international experience;
- ability to supply major components for a project;
- head office support for pursuit of international business if the firm is a foreign-owned subsidiary.

iv) *Mining Companies.* Several mining and mineral processing companies in Canada have generated capital projects abroad as investors. In other industry sectors, few foreign projects have been stimulated by Canadian commodity producers, utilities or operators of industrial process plants.

v) *Consortia.* There has been limited success to date in forming Canadian consortia to pursue major overseas projects.

Recent Canadian Marketing Activity

Prior to 1979, only sporadic contacts had been made with German companies to seek participation in third country projects. In early 1979, the Consulate General in Düsseldorf initiated a program of intensive calls on German companies active in foreign markets. As a result of that activity, the Consulate General has been approached regarding about 80 projects.

With few exceptions, the requests were in terms of obtaining project financing which, if available at competitive rates, would lead to procurement of equipment in Canada. In response to this requirement, the Consulate General has acted as intermediary between the German firms and the Export Development Corporation (EDC) and potential private partners in Canada.

Although it is inappropriate to identify specific commercial situations and the participating firms when the bid award may not be finalized, the following list illustrates the type of projects explored to date. Participation by the post has ranged from short exploratory meetings to ongoing consultations over a period of months.

- Supply by Canadian firms of a water treatment plant for an integrated rolling mill. The additional possibility existed to supply overhead cranes and finishing heads.
- Supply of equipment and engineering services on a long-distance gas pipeline project.
- Supply of a complete potassium chloride plant to an East Bloc country.
- Supply of a large wood pulp plant to a Latin American country.

Canadian Success Stories

Two recent successes represent the results that can accrue to Canadian firms participating with German partners. The German firm of Salzgitter, with Canadian subcontractors, obtained the contract for the supply of a non-ferrous metal refinery to Albania. The licensing of know-how was initially the commercial attraction, but realistic estimates are that equipment exports could attain \$5 million. Secondly, a consortium led by Hochtief will construct in Iraq a dam that will include delivery of Canadian heavy-duty trucks worth \$12.5 million.

Impediments and Advantages

Over the years, German firms have developed good relations with several potential consortium partners, mostly in Europe but also, to a lesser extent, in the U.S. They will think seriously before committing themselves to working with new partners across the Atlantic with whom they have little, if any, co-operative experience and whose approach to business may differ substantially. The transatlantic separation also impedes the smooth and direct exchange of information between consortium partners.

German companies appreciate the ability of the Export Development Corporation (EDC) to take the lead in syndicating total project financing. EDC can frequently offer the longer repayment periods that are appealing to German project "packagers".

The Competition

Major competitors (in descending order of importance) are the neighbouring European countries, Japan, certain emerging developing countries and the U.S. European companies will frequently tend to associate with one another in the search for third country projects.

Action Plan

To date, Canada has been mainly a "demandeur", asking successful German companies to include Canadian industry in their consortia when bidding in third countries. The following steps are planned:

- a) Maintain contact with German contracting firms active in foreign capital projects to seek out opportunities for co-operative ventures in third countries; (Düsseldorf)
- b) Develop an effective system to inform expeditiously potential Canadian participants of selected tender opportunities with KfW financing that are listed in *Nachrichten für den Aussenhandel*; (Bonn)
- c) Encourage Canadian firms to approach suitable German companies for partnership in Canadian-identified projects to the extent that complementarity of capabilities and/or financing and/or the spreading of risk make that a desirable step. (RCT*/FSEI*/Düsseldorf)

10. INDUSTRIAL CO-OPERATION

The Concept

Industrial co-operation is a broadly defined term that is understood to involve the exchange of know-how, technology and/or investment, rather than the conventional transfer of goods and services. In the Canada-F.R.G. context, that process can occur in two directions:

- i) In the Canada-to-Germany sense, industrial co-operation may form an integral part of a Canadian firm's approach to marketing in the F.R.G. A corporate presence may be required through joint venture, licensing or direct investment;

- ii) Incoming industrial co-operation from Germany to Canada provides capital and/or technology to help Canada's industrial base grow and become more competitive.

Although this chapter examines both aspects, Canada has historically been an importer of investment capital and industrial processes. It is expected that *incoming* industrial co-operation will outweigh the other form in the bilateral Canada-Germany context.

The Canada-F.R.G. Case

From a European perspective, countries have three main interests in economic relations with Canada: a market for their exports, a secure site for their foreign investments, and an important source of natural resources. Often, the latter two goals are the reasons for participation by German firms in large natural resource projects through direct equity investment.

F.R.G. investment in Canada has been increasing over the past three decades. In 1975, the Canadian government instituted a more formal approach to the development of Canadian-F.R.G. industrial co-operation. At that time, a mission of officials from the former Department of Industry, Trade and Commerce visited Germany. That initiative was followed by visits in both directions by government and industry officials. As a result of those exchanges, German business leaders became more aware of the opportunities presented by Canada's industrial capability. They also developed an understanding of associated policies as well as of the circumstances unique to this country. Tangible benefits in the form of joint ventures involving the private sectors of both countries could be traced to some of those missions.

Spurred on by those results, similar activities have increased dramatically in the past three years, and current plans indicate a continuation of that trend. In the first eight months of 1982, at least six missions involving German businessmen have come to Canada to pursue commercial interests. At least five Canadian groups with official sponsorship have travelled to Germany. At the same time, limited institutional links have been established, particularly the EEC-Canada Framework Agreement signed in 1976.

While regular political and economic consultations between senior Canadian and German officials had been in train for some time, Prime Minister Trudeau and former Chancellor Schmidt decided, following the Montebello Summit in 1981, that special measures were required to bring the bilateral economic and commercial relationship closer to its potential. Both leaders appointed personal representatives who engaged in fact-finding missions. To follow through on existing possibilities, a Canada/F.R.G. Management Team was formed. The team is composed of senior representatives from the departments of External Affairs; Industry, Trade and Commerce-Regional Economic Expansion; Communications; Energy, Mines and Resources; Finance; the Privy Council Office and the Foreign Investment Review Agency.

* Refer to Glossary of Abbreviations, page 39

F.R.G. Investment in Canada

The Federal Republic of Germany has been, and continues to be, a significant exporter of capital and technology. Endowed with a large cadre of efficient management and excellent state-of-the-art technology in many sectors that are complemented by a solid capitalization base, the F.R.G. represents an attractive source of industrial development prospects.

West German direct investment abroad has amounted to DM 66 billion since 1952. Canada has been a most attractive market for those investment funds, which totalled \$1.6 billion by the end of 1981. As a result, the F.R.G. is Canada's third most important source of foreign direct investment after the U.S. and Britain. Most of that investment has been made over the last decade. More than 50 per cent of the total value is concentrated in real estate, joint ventures, mutual funds and oil and gas exploitation.

A considerable number of firms with full or partial German ownership are established in Canada. Although a definitive accounting is difficult to achieve, an estimated 1,500 Canadian companies can trace partial or total ownership to German firms. Conversely, and taking the perspective of the F.R.G., the directory published by the German-Canadian Chamber of Commerce in October 1980 listed 229 German firms having subsidiaries or branches in Canada. Despite those impressive numbers and the undeniable growth in bilateral trade over the past decade, a major expansion remains attainable in all aspects of Canada's exchanges with Germany. For example, in merchandise trade, which is often a precursor of industrial co-operation, Canada currently accounts for only 1 per cent of German exports. Business connections have focused on direct sales and equity investments, rather than on licensing and joint ventures.

Canadian Investment in the F.R.G.

By 1978, Canadian investment in Germany was less than one-fifth the value of German investment in Canada. Nevertheless, by that year the Canadian total was \$225 million, which placed the F.R.G. seventh as a destination for Canadian investment. Some 80 Canadian subsidiaries are known to be established in Germany, representing Canadian interests in the clothing, packaging, electronics, financial, tool and die manufacturing, and metal fabrication sectors, among others.

Incoming Industrial Co-operation

The balance of this section focuses on Germany-to-Canada, or incoming, industrial co-operation. That does not imply a lack of interest in industrial co-operation in the Canada-to-Germany direction. Of course, Canadian investment and joint ventures in Germany have been, and will continue to be, established, as a result of individual corporate decisions made by Canadian firms. Those steps will be taken after the Canadian firm has been successfully marketing its manufactured products in Europe and rec-

ognizes that an ongoing presence is critical to the maintenance or growth of its market share.

An examination of the recent Canadian experience, with *incoming* industrial co-operation, suggests a classification into two basic categories*:

- i) secondary and tertiary manufacturing, often of small or medium size;
- ii) macroprojects, frequently related to resource development.

Industrial development in secondary and tertiary manufacturing is a very competitive field. Both within Canada and internationally, potential industrial investors are courted assiduously. Ideally, the search for incoming industrial development will entail a matching of Canadian sectoral requirements and resource development intentions with those areas of technology where German industry is most particularly competent. Also, selection of the type of industry is governed by policy considerations. The orientation to growth sectors would be in keeping with the federal government's commitment to encourage high technology industries that will be better able to meet intensifying international competition.

The situation is different for macroprojects. Such projects are usually pursued by very large financial-industrial groups that customarily have identified and evaluated the project opportunity at an early stage. The role of government can best be described as influencing the project environment as opposed to the more explicit activity of seeking out partners. Functions such as the granting of export permits, royalty arrangements, resource access, and duty or taxation agreements frequently have a critical impact on the project viability. On the other hand, the major economic impact of the macroproject is usually an argument that cannot be ignored by the federal government (and its provincial counterparts).

The Competition

For projects embodying secondary and tertiary manufacturing, it must be recognized that Canada is but one of several possible sites for foreign industrial investment by F.R.G. interests. There is a component of German foreign policy regarding relations with the Third World that encourages German investment in developing countries. More significantly, our competitors among the developed countries, notably the United States, are highly organized in their system of seeking out and assisting incoming industrial development. Canada is an attractive destination for German industrial investment, since it possesses a stable political environment, affluent population and well educated work force. In the context of seeking German participation, there are additional factors: easy access to the U.S. market for most products, assured energy supply at reasonable cost, and a low Canadian dollar.

* This discussion of industrial co-operation leaves aside major government procurement involving the military and transportation sectors

Sectoral Opportunities

Many industrial sectors in Canada could benefit from direct investment or other forms of technology transfer from the F.R.G. including:

- woodworking machinery
- environmental control equipment
- plastics processing equipment (particularly building products)
- automotive products
- power transmission and conveyor chains
- petrochemical processes and equipment
- the petrochemical industry
- asbestos-derived products
- underground coal extraction machinery
- medical devices.

New activity in the above categories would fill gaps in the spectrum of Canadian production capabilities or materially add to existing capacity in sectors where greater capacity is needed. The list should not be interpreted as restricting the extent of sectoral interest. Rather, it is a starting point to which may be added other production opportunities as they arise or are sought out.

Recent Canadian Industrial Promotion Activity

The following actions have been taken in recent years for the promotion of industrial development opportunities in Canada:

- i) Hosting investment seminars and *Sprechstage*¹;
- ii) Simplifying investment trips to Canada by the German Chamber of Commerce and other groups;
- iii) Replying to individual inquiries, counselling and, where appropriate, providing reference to provincial authorities;
- iv) Assisting and maintaining contact with ITC/DREE regarding regional incentives;
- v) Distributing a "New Products" bulletin to illustrate products that are available from West Germany for production under licenses or joint ventures;
- vi) Arranging visits of Canadian municipal industrial commissioners to the F.R.G.;
- vii) Assisting provincial representatives.

The Action Plan

The measures planned are intended to favour industrial co-operation in all sectors, although the section on opportunities above has already listed those product areas where the acquisitions of enhanced Canadian industrial capability would be most useful.

- a) Organize and participate in *investment seminars* in key cities within the F.R.G. (Bonn/Consulates General)

The commercial staff of the Canadian Embassy and at Consulates General have made presentations to encourage industrial development from Germany. For the sophisticated and sizeable German industrial community, the concept of making factual presentations to specialized groups is recognized as valid and effective. Canadian credibility depends upon the presentations being made with a high degree of professionalism. Participation by ITC/DREE specialists would be an essential element of this vertically-oriented approach. On the panel there should also be a lawyer, a representative of the Canadian commercial banks and, if available, German executives with practical experience in Canada. Several of the provinces (depending on the industry sector) could be interested and would probably wish to attend.

- b) Identify sectors that might benefit from German expertise and arrange *industrial co-operation missions* from Canada to Germany. (Industry Sector Branches, ITC/DREE*)

Outgoing industrial co-operation missions can be a valuable tool for promoting technology transfer. Their immediate effect is to give Canadian manufacturers in a given sector an overview of the latest technology in Germany. Companion to this are the discussions that inevitably occur during the visits with the German counterparts regarding possible technology exchanges. The nature of the outcome of such discussions can vary from licensing proposals to perception of one or more Canadian visitors as a potential partner in joint venture investment in Canada.

- c) Encourage *investment visits to Canada* by groups of German businessmen. (Bonn/Consulates General)

Such visits can be efficiently organized under the auspices of umbrella organizations such as the German Chamber of Commerce. Visits to Canada by missions of German businessmen are usually of a multi-sector make-up. Usually, those investment trips have been sponsored by German organizations such as the Chamber of Commerce, commercial banks, etc. The support of associations and chambers of commerce should be sought for future missions.

- d) Continue to conduct, or participate in, export seminars, in collaboration with organizations such as the CEA. (RCT*)

¹ Literally, talk days. They are presentations before appropriate audiences throughout Germany on the attractions of industrial investment in Canada

* Refer to Glossary of Abbreviations, page 39

TABLES

Table 1: F.R.G. Fact Sheet

Official name:	Federal Republic of Germany
Capital:	Bonn
Area:	249,000 km ² (96,139 square miles)
Population (1981):	61,508,000
Language:	German
Religions:	Roman Catholic (45%), Protestant (44%)
Type of government:	Federal Republic
Largest cities:	West Berlin – 1,926,826 Hamburg – 1,680,340 Munich – 1,313,939 Cologne – 976,761 Essen – 664,408
Monetary unit:	Deutschmark (DM)
GNP (1982, DM billion):	1,559

Table 2: German GNP by Component

	(DM billion)				
	1980	1981	1982	1983*	1984*
Private consumption	821.6	860.9	903.0	957.8	1021.5
Government consumption	303.6	325.8	342.5	361.1	381.0
Gross fixed investment	351.0	355.9	345.9	369.8	406.2
Inventory investment	18.8	-2.9	5.0	17.7	18.9
Net exports	-3.1	12.2	33.8	46.0	45.4
Total GNP	1491.9	1551.9	1630.2	1752.4	1873.0

* Projected

Sources: Data Resources, Inc., European Bulletin

Table 3: German Balance of Payments

	(DM million)					
	1975	1978	1979	1980	1981	1982
Exports	221,590	284,910	314,470	350,330	396,990	427,800
Imports, c.i.f.	184,310	243,710	292,040	341,380	369,120	376,600
Trade balance	37,280	41,200	22,430	8,950	27,870	51,200
Services balance	-8,280	-7,360	-12,750	-14,300	-18,440	-16,700
Current account	9,930	18,110	-10,960	-29,540	-17,110	7,500
Capital account	-13,282	5,436	10,527	4,884	10,549	-7,200

Sources: International Monetary Fund, International Financial Statistics
Deutsche Bundesbank, Monthly Report, 1983

Table 4: German Import Composition

	(Per cent)					
	1967	1971	1976	1979	1980	1981
Food, beverages and tobacco	20.6	16.4	13.9	11.6	10.8	11.0
Crude materials (inedible)	14.9	10.9	9.5	8.0	7.8	7.1
Semi-manufactured goods	16.3	17.3	25.9	27.9	29.9	32.3
Fully manufactured goods	43.6	52.0	48.0	49.8	48.2	47.0
Other	4.6	3.4	2.7	2.7	3.3	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Department of External Affairs, International Trade Databank

Table 5: German Imports by Principal Country

	(Per cent)						
	1976	1977	1978	1979	1980	1981	1982
Netherlands	13.9	13.2	12.7	12.4	11.5	12.1	12.2
France	11.7	11.7	11.7	11.4	10.8	10.9	11.4
U.S.	7.9	7.3	7.2	7.0	7.6	7.7	7.5
Italy	8.6	8.9	9.6	8.9	8.0	7.5	7.6
Britain	3.8	4.5	5.0	5.9	6.7	7.5	7.2
Belgium-Luxembourg	8.7	8.4	8.5	8.1	7.2	6.7	6.8
Saudi Arabia	—	—	—	—	2.9	3.9	2.8
Japan	2.5	2.8	3.0	2.7	3.1	3.5	3.9
Switzerland	2.8	3.1	3.6	3.7	3.6	3.4	3.4
Austria	2.3	2.6	2.9	2.9	2.9	2.8	3.0
Others	37.8	37.5	35.8	37.0	35.7	34.0	34.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Department of External Affairs, International Trade Databank

Table 6: Index of Orders Received by German Sectors

	(1976 = 100)					
	<u>1970</u>	<u>1975</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Manufacturing sector						
Total	64.5	88.0	117.8	122.2	127.6	126.4
Change from previous year (%)	4.7	-1.9	10.8	3.8	4.4	-1.0
Capital goods sector						
Total	63.2	88.0	119.5	123.2	130.4	129.8
Change from previous year (%)	4.6	3.9	10.2	3.1	5.8	-0.5
Consumer goods sector						
Total	68.4	87.8	116.7	121.6	122.0	121.7
Change from previous year (%)	4.1	-0.6	7.9	4.1	0.4	-0.3
Basic and producer goods sectors						
Total	64.5	88.0	115.4	121.0	126.4	123.4
Change from previous year (%)	5.2	-12.1	14.0	4.8	4.5	-2.5
Construction						
Total	—	106.6	160.8	165.2	140.9	141.8
Change from previous year (%)	—	6.9	12.9	2.7	-14.7	+0.6

Sources: Deutsche Bundesbank, Monthly Report

Table 7: Summary of Canada-F.R.G. Trade

	1977	1978	1979	1980	1981	1982
Total bilateral						
Trade (\$000s)	1,731,703	2,022,233	2,926,988	3,094,749	2,893,373	2,613,991
Growth						
from previous year (%)	16.8	16.8	44.7	5.7	-6.5	-9.6
Canadian exports						
to the F.R.G. (\$000s)	767,680	779,668	1,368,290	1,639,577	1,285,720	1,231,185
Growth						
from previous year (%)	9.5	1.6	75.5	19.8	-21.6	-4.3
German exports						
to Canada (\$000s)	964,023	1,242,565	1,558,698	1,455,172	1,607,653	1,382,806
Growth						
from previous year (%)	23.5	28.9	25.4	-6.6	10.5	-14.1
Balance of trade for Canada \$	-196,343	-462,897	-190,408	184,405	-321,933	149,000
Ratio of German exports						
to Canadian exports	1.26	1.59	1.14	0.89	1.25	1.12

Source: Statistics Canada, 1982, 65-003 and 65-006

Table 8: Principal Canadian Exports to the F.R.G.

	(\$000s)					
	1977	1978	1979	1980	1981	1982
Wood pulp and similar pulp	144,108	128,777	175,449	262,320	275,267	271,143
Copper and alloys	53,280	30,410	36,484	81,977	69,238	45,387
Flaxseed	32,282	36,220	52,121	42,080	68,661	37,277
Iron ores and concentrates	24,109	13,805	51,397	75,900	58,830	92,212
Newsprint paper	25,064	21,442	32,974	38,851	49,046	46,036
Other metals in ores, concentrates and scrap	11,995	15,895	53,455	62,367	47,032	32,020
Other inorganic chemicals	676	7,651	27,348	21,572	41,825	37,730
Asbestos, unmanufactured	61,295	67,448	87,084	90,351	35,036	55,259
Coal and other bituminous substances	8,795	12,799	10,882	19,741	33,718	50,099
Lumber, softwood	21,776	28,062	51,701	58,300	28,026	30,769
Subtotal	383,380	349,837	578,895	753,459	706,679	697,932
Other	384,300	429,831	784,395	886,118	579,041	537,547
TOTAL EXPORTS	767,680	779,668	1,368,290	1,639,577	1,285,720	1,235,479
	(% of total exports)					
Fully manufactured goods (inedible)	10.1	15.4	23.8	26.9	18.4	16.3
Semi-manufactured goods (inedible)	40.5	37.9	33.7	37.4	44.8	45.7
Crude materials (inedible)	31.0	32.0	32.7	26.9	27.8	31.1
Other	18.4	14.7	9.8	8.8	9.0	6.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, 1982, 65-004

Table 9: Canadian Automotive Exports to the F.R.G.

	(\$000s)		
	1980	1981	1982
Bearings and parts for motor vehicles	469,772	287,000	2,321,000
Motor vehicle engines and parts	46,636	170,000	44,000
Parts and accessories for motor vehicles	9,540,159	11,032,000	11,084,000
Passenger car tires	105,230	26,000	299,000
Truck and bus tires	749,120	300,000	507,000
Tire tubes	5,110	—	—
Spark plugs and parts	160,000	236,000	566,000
Total	\$11,076,027	\$12,051,000	\$14,821,000

Statistics Canada, January–December 1982, 65-004

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GLOSSARY OF ABBREVIATIONS

ANUGA	— World Food Market, Cologne	RDP	— Research, Development and Production
BREEC	— Brussels, European Economic Community, DEA	SCS	— External Information and Creative Services Division, DEA
CEA	— Canadian Export Association	SICOB	— International Data Processing, Remote Processing, Communication and Office Organization Fair, Paris
CGOT	— Canadian Government Office of Tourism	SITEV	— International Exhibition for the Suppliers of the Vehicle Industry, Geneva
COMDP	— Co-operative Overseas Market Development Program	SPOGA	— International Trade Fair of Sports Goods, Camping Equipment and Garden Furniture, Cologne
CRT	— Cathode Ray Tube	TDD	— Defence Products Bureau, DEA
CVA	— Canadian Value Added	TDO	— Overseas Division, Defence Products Bureau, DEA
DBP	— Deutsche Bundes Post	TFC	— Timber Frame Construction
DEA	— Department of External Affairs	VW	— Volkswagen
DM	— Deutsche Mark		
DRP	— Duty Remission Program		
EDC	— Export Development Corporation		
EEC	— European Economic Community		
EELA	— Electronics and Aerospace, ITC/DREE		
EFCP	— Food and Consumer Products Industries, ITC/DREE		
EOIA	— Office of Industrial Adjustment, ITC/DREE		
FAMR	— Automotive, Marine and Rail, ITC/DREE		
FANDO	— Fisheries and Oceans		
FSEI	— Service Industries Branch, ITC/DREE		
FIRA	— Foreign Investment Review Agency		
F.R.G.	— Federal Republic of Germany		
GATT	— General Agreement on Tariffs and Trade		
GMOD	— German Ministry of Defence		
GNP	— Gross National Product		
GRPI	— Resource Processing Industries, ITC/DREE		
Herrenmode	— International Mens' Fashion Week, Cologne		
IGEDO	— International Fashion Trade Fair, Düsseldorf		
ISPO	— International Sports Equipment Fair, Munich		
ITC/DREE	— Department of Industry, Trade and Commerce/Regional Economic Expansion		
LTA	— Long Term Agreement		
MFN	— Most-Favoured-Nation		
MTN	— Multilateral Trade Negotiations		
NATO	— North Atlantic Treaty Organization		
OEM	— Original Equipment Manufacturers		
PEMD	— Program for Export Market Development		
PTT	— Post Telephone and Telegraph		
R&D	— Research and Development		
RCT	— European Summit Countries and EC Trade Development Division, DEA		

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